NOVA's vision

NOVA Corporation **1994** Annual Report

is to be the best natural gas services and petrochemicals company – integrated, worldwide.

our objective is to deliver well-above-average returns to our shareholders.

We will produce these returns by consistently exceeding our customers' expectations. Superbly-led teams of employees, energized by an innovative work environment, will deliver exceptional value to our customers.

these principles guide our every action:

We will never compromise our commitment to personal and corporate integrity, workplace health and safety, and protection of the environment. We will concentrate on businesses of substantial size that offer growth potential and high returns. We will compete only where we can be the best. We will deliver low-cost excellence and high productivity growth in all areas of our business. We will maintain a conservative balance sheet.

Shareholders are invited to attend NOVA's annual and special meeting on Friday, May 5, 1995, 10:30 a.m. at the Calgary Convention Centre, Calgary, Alberta.

1994 financial highlights

1994 was a very good year:

- → record net income of $575 million
- → net income per share more than doubled to $1.20
- → funds from operations increased 48%
- → total assets increased 19%

All dollar figures used in this report are quoted in Canadian dollars unless indicated otherwise.

All references to total return are based on performance on the Toronto Stock Exchange.

YEAR ENDED DECEMBER 31

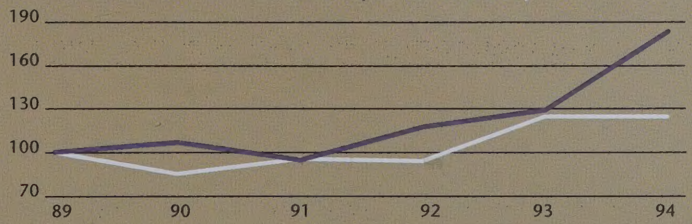
(millions of dollars, except per share data and percentages)	1994	1993	1992
INCOME			
Revenue	$ 3,724	$ 3,274	$ 3,027
Net income	$ 575	$ 191	$ 152
Net income per share (fully diluted)	$ 1.20	$ 0.47	$ 0.39
CASH FLOW			
Funds from operations	$ 668	$ 450	$ 439
Capital expenditures			
Natural gas services	$ 834	$ 523	$ 451
Financed by cost-of-service debt	(545)	(339)	(288)
	289	184	163
Petrochemicals	204	262	79
	$ 493	$ 446	$ 242
Dividends paid per share	$ 0.24	$ 0.24	$ 0.24
FINANCIAL POSITION			
Total assets	$ 8,257	$ 6,923	$ 6,189
Equity percentage in non-cost-of-service businesses	69%	50%	57%

Our objective is to deliver a total return to shareholders in the top quartile of the TSE 300 in every five-year period.

In 1994 our total return to shareholders was 42%, which was No. 1 among the TSE 35. This index includes 35 of Canada's largest publicly traded companies.

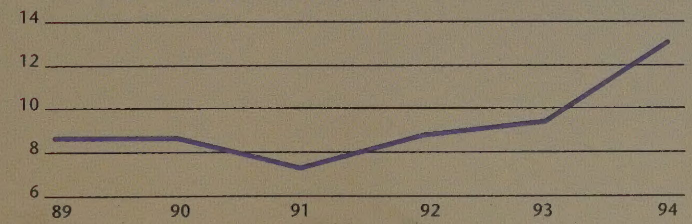
Over the past five years our average annual total return was 13%, placing us in the second quartile among the TSE 300.

TOTAL RETURN PERFORMANCE* (**NOVA** **TSE 300**)

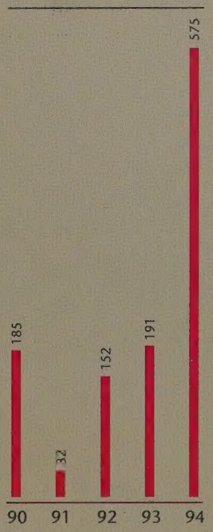


*Total Return = Appreciation in share value, assuming reinvestment of dividends. Assumes $100 invested on December 31, 1989 in NOVA shares and the TSE 300.

NOVA CLOSING SHARE PRICE (**TSE**)



NET INCOME(1)
($ millions)



(1) From continuing operations before restructuring charge

corporate highlights

Clearly, NOVA's most significant accomplishment in 1994 was the achievement of a record $575 million in net income. The recovery in chemical prices was the largest single contributor. Other important contributing factors included asset sales, growth in most areas of our business, improved productivity and disciplined execution of our strategic direction.

Disciplined Execution of Strategy

NOVA's employees made substantial progress in executing NOVA's strategic plan, narrowing the company's focus to businesses where we can be the best.

→ We strengthened our long-term strategic position in the methanol business by increasing our ownership position in Methanex Corporation to 24%. We gained our position in Methanex by swapping our existing methanol assets for equity, and making a further cash investment. Methanol prices tripled during the year. Methanex reported record earnings and production in 1994. Assuming favorable industry conditions continue and planned capacity expansions are in place, Methanex's earnings and volumes should grow in 1995.

→ In an independent customer satisfaction survey, our Alberta gas pipeline was ranked as the No. 1 major gas pipeline in North America.

→ In response to the wishes of our customers, we reorganized our Alberta gas pipeline business into a stand-alone corporation.

48-inch-diameter pipe delivered near Rocky Mountain House, Alberta.

→ We ceased our participation in the natural gas exploration and production business with the sale of Novalta Resources Inc., realizing cash proceeds of $265 million and an after-tax gain of $120 million.

→ We strengthened the balance sheet through asset sales and by issuing $525 million of new equity. The non-cost-of-service capital structure included 31% debt at year-end, down from 50% the year before. This is the lowest level of debt-to-equity in 10 years.

→ We established a firm foothold in the North American natural gas services marketplace by acquiring a 39.1% interest in Natural Gas Clearinghouse (NGC). Early in 1995, NGC is expected to combine its operations with Trident NGL Holding, Inc. This transaction will more than double NGC's size and will significantly increase NGC's participation in the U.S. gas gathering, processing and fractionation business. This will involve a NOVA investment of about $95 million.

→ Together with NGC, we launched a Canadian gas services joint venture, Novagas Clearinghouse, which is delivering excellent results. To strengthen our Canadian gas marketing operations, we acquired the remaining 50% interest in Pan-Alberta Gas Ltd., a natural gas marketer selling Canadian gas to U.S. markets.

Novagas Clearinghouse gas processing plant at Provost, Alberta.

→ It was a year of progress for international gas services. We acquired additional equity in the TGN pipeline in Argentina and expanded its capacity. In a complementary initiative, we are competing to deliver natural gas from Argentina to Chile through the GasAndes consortium. We also acquired an interest in an Australian natural gas pipeline and won important consulting contracts in Mexico and Pakistan.

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NOVA Corporation of Alberta

NOTICE OF ANNUAL AND SPECIAL MEETING

NOTICE is hereby given that the Annual and Special Meeting (the "Meeting") of NOVA Corporation of Alberta (the "Corporation") will be held at The Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta on Tuesday, April 23, 1991 at 10:30 a.m., Calgary time, for the following purposes, each of which is described in more detail in the accompanying Information Circular - Proxy Statement which is incorporated by reference herein, namely:

1. to elect certain Directors;
2. to reappoint Ernst & Young as the Auditors of the Corporation and to authorize the Directors to fix their remuneration as such;
3. to receive the consolidated financial statements of the Corporation for the year ended December 31, 1990 and the reports of the Directors and the Auditors;
4. to confirm amendments to the General By-law of the Corporation passed by the Board of Directors on June 22, 1990 and January 31, 1991; and
5. to transact such other business as may properly be brought before the Meeting.

The close of business on March 13, 1991 is the record date for the determination of holders of common shares entitled to receive notice of, and to attend and vote at, the Meeting. Any transferee or person acquiring common shares after such date may, on proof of ownership of common shares, demand not later than 10 days before the Meeting that his name be included in the list of persons entitled to attend and vote at the Meeting.

By Order of the Board of Directors

(Signed) JACK S. MUSTOE
Vice President, General Counsel and
Corporate Secretary

Calgary, Alberta
March 18, 1991

TO: Holders of Common Shares

If you are unable to attend the Meeting in person, please complete and sign the enclosed form of proxy and forward it in the enclosed postage prepaid self-addressed envelope to the Corporate Secretary of the Corporation, or otherwise deliver it c/o National Trust Company, Suite 1008, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta T2P 3B2, in either case to reach the addressee no later than 5:00 p.m., Calgary time, on Monday, April 22, 1991.

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NOVA Corporation of Alberta

INFORMATION CIRCULAR - PROXY STATEMENT

GENERAL

This Information Circular - Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors and the management of NOVA Corporation of Alberta (the "Corporation") for use at the Annual and Special Meeting of the shareholders of the Corporation (the "Meeting") to be held on Tuesday, April 23, 1991 at 10:30 a.m., Calgary time, at The Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta and at any adjournment thereof. Enclosed is a form of proxy for use at the Meeting. A copy of the Annual Report, which includes the Consolidated Financial Statements of the Corporation for the fiscal year ended December 31, 1990 to be presented to the Meeting, is also enclosed. **Copies of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, as filed with Canadian provincial securities commissions and with the United States Securities and Exchange Commission, may be obtained without charge by writing to the Corporation to the attention of its Corporate Secretary, P.O. Box 2535, Postal Station M, Calgary, Alberta T2P 2N6.**

Pursuant to the General By-law of the Corporation, instruments of proxy must be received by the Corporate Secretary of the Corporation no later than 5:00 p.m., Calgary time, on Monday, April 22, 1991. Proxies can be delivered to the Corporate Secretary by using the enclosed postage prepaid self-addressed envelope, or by otherwise delivering them c/o National Trust Company, Suite 1008, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta T2P 3B2.

The approximate date on which this Information Circular - Proxy Statement and enclosed form of proxy are expected to be first mailed to holders of common shares of the Corporation (the "Common Shares") is March 18, 1991.

All dollar figures used herein are in Canadian dollars unless otherwise indicated. On March 13, 1991 the Bank of Canada noon rate for U.S. dollars was reported as Cdn. $1.00 = U.S. $0.8666.

REVOCABILITY OF PROXY

An instrument of proxy may be revoked by the person giving it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or his attorney authorized in writing and deposited either at the registered office of the Corporation at 801 Seventh Avenue S.W., Calgary, Alberta, Canada, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or with the chairman of the Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PERSONS MAKING THE SOLICITATION

This solicitation of proxies is made by and on behalf of the Board of Directors and the management of the Corporation and the costs thereof will be borne by the Corporation. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited by personal interviews, telephone or other telecommunication device, by Directors, officers and employees of the Corporation, who will not be specifically remunerated therefor. In addition, the Corporation has retained Georgeson & Company Inc., Wall Street Plaza, New York, New York 10005, to aid in the solicitation of proxies from U.S. individuals and institutional holders at a fee of approximately U.S. $9,000.00, plus out-of-pocket expenses, and The Proxy Solicitation Company Ltd., 80 Richmond Street West, Toronto, Ontario M5H 2A4, to aid in the solicitation of proxies from Canadian individuals and institutional holders at a fee of approximately $7,500.00, plus out-of-pocket expenses.

No person is authorized to give any information or to make any representations other than those contained in this Information Circular - Proxy Statement and, if given or made, such information or representations must not be relied upon as having been authorized to be given or made.

EXERCISE OF DISCRETION

The Common Shares represented by the enclosed form of proxy will be voted or withheld from voting in accordance with the instructions of the shareholder. **In the absence of such specification, such Common Shares will be voted for the election of each of the nominees for election as Directors named on the form of proxy, for the reappointment of Ernst & Young as Auditors and for the confirmation of the amendments to the General By-law described herein.** The persons appointed under the enclosed form of proxy are conferred with discretionary authority with respect to amendments or variations of those matters specified in the proxy and Notice of Meeting and with respect to any other matters which may properly be brought before the Meeting or any adjournment thereof. At the time of printing this Information Circular - Proxy Statement the Board of Directors and the management of the Corporation know of no such amendment, variation or other matter.

COMMON SHARES AND PRINCIPAL HOLDERS THEREOF

As of February 21, 1991, the Corporation had outstanding 299,863,898 Common Shares. Each Common Share confers upon the holder the right to one vote on a ballot, if called, on each matter that may properly be brought before the Meeting, except that the NOVA Corporation of Alberta Act (the "NOVA Act") provides that no person alone or in concert with others may vote more than 15% of the outstanding voting shares.

The close of business on March 13, 1991 is the record date for the determination of holders of Common Shares who are entitled to notice of, and to attend and vote at, the Meeting. Any transferee or person acquiring Common Shares after such date may, on proof of ownership of Common Shares, demand not later than 10 days before the Meeting that his name be included in the list of persons entitled to attend and vote at the Meeting.

As at the dates specified, no person or company, to the knowledge of the Directors or senior officers of the Corporation, beneficially owned, directly or indirectly, Common Shares carrying more than 5% of the voting rights attached to all outstanding Common Shares of the Corporation other than as indicated in the following table:

Date	Title and Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
February 13, 1991	Common Shares	Mackenzie Financial Corporation 150 Bloor Street West Toronto, Ontario	Sole voting and dispositive power over 18,039,716 Common Shares	6.0%
March 8, 1991	Common Shares	The Alberta Heritage Savings Trust Fund 9515 - 107 Street Edmonton, Alberta	Sole voting and dispositive power over 16,822,430 Common Shares (1)	5.4%(1)
March 8, 1991	Common Shares	Templeton Galbraith & Hansberger Limited P.O. Box N-7776 (Layford Cay) Nassau, Bahamas	Sole voting and dispositive power over 16,156,508 Common Shares	5.4%

(1) Includes and is calculated including 14,018,692 Common Shares of which the Alberta Heritage Savings Trust Fund could become the beneficial owner on conversion of the 1987 Adjustable Rate Convertible Subordinated Debentures of the Corporation.

ELECTION OF DIRECTORS

The NOVA Act provides for a Board of Directors consisting of a minimum of 15 Directors and a maximum of 20 Directors. The number of Directors presently in office is 19, including those appointed by the Lieutenant Governor in Council as described below. The information given herein with respect to each of the Directors and nominees for election as Directors is based upon information furnished to the Corporation by each Director or nominee.

Beneficial Ownership of Securities

The table below sets forth as at February 21, 1991 information with respect to beneficial ownership of shares of the Corporation, including options to acquire such shares exercisable within 65 days of February 21, 1991, by each Director of the Corporation, each nominee for election as Director at the Meeting and by all Directors, nominees for election as Directors and officers of the Corporation, as a group, as provided to the Corporation by such persons.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1) (2)		Title of Class
John Black Aird, O.C., Q.C.	5,000	(3)	Common Shares
Sidney Robert Blair	1,542,000	(4) (5)	Common Shares
Dr. Frank Peter Boer	Nil		N/A
James Henry Butler	730,000	(5)	Common Shares
Ronald Borden Coleman	2,400		Common Shares
William Harold Comrie	10,000		Common Shares
Sir Judson Graham Day	2,000	(6)	Common Shares
Willard Zebedee Estey, C.C., Q.C.	1,200		Common Shares
John Joseph Healy	1,560		Common Shares
Harley Norman Hotchkiss	15,000		Common Shares
William Arnold Howard, Q.C.	11,208	(4) (6)	Common Shares
	400		7.60% First Preferred Shares
Peter Logie Parkin Macdonnell, C.M., Q.C.	9,000	(6)	Common Shares
Harold Phillip Milavsky	12,240	(4) (6)	Common Shares
Clifford Leonard Mort	3,000		Common Shares
Sir Robert Alastair Morton	300		Common Shares
Hugh John Sanders Pearson	17,280		Common Shares
Robert Lorne Pierce, Q.C.	944,781	(5) (6)	Common Shares
Daryl Kenneth Seaman	102,361		Common Shares
William George Wilson	650,297	(4) (5)	Common Shares
Janice Gaye Rennie (7)	Nil		N/A
All Directors, nominees and officers as a group (39 persons, including those listed herein)	5,938,871	(4) (5)	Common Shares
	400		7.60% First Preferred Shares

Notes:

(1) Other than as described in notes (3) and (5) below, these shares are subject to the sole voting and investment power of their beneficial owners.

(2) Each Director's or nominee's holdings represents less than one percent of the outstanding shares of such class and all Directors, nominees and officers of the Corporation, as a group, hold approximately 1.98% of the outstanding Common Shares.

(3) These 5,000 Common Shares are held by Housco Investments Limited, a company owned by the spouse of the Hon. J. B. Aird. The Hon. J. B. Aird is Chairman of that company and exercises sole voting power over these shares but disclaims beneficial ownership thereof.

(4) The Corporation's pension plans are administered by a Pension Committee composed of Messrs. Blair, Howard, Milavsky, Wilson and two executive officers of the Corporation (see "Committees and Meetings of the Board of Directors" and "Pension Plans"). The foregoing information regarding the beneficial ownership of Common Shares by each Director does not include an aggregate of 107,005 Common Shares of the Corporation held by the trustee for such pension plans and over which the Pension Committee has no investment or voting control. The foregoing information does not include 25,005 Common Shares held by the pension plan of Foothills Pipe Lines Ltd.

(5) Includes for Messrs. Blair, Butler, Pierce, Wilson and 19 other officers: 1,317,000; 607,000; 915,500; 502,750; and 1,700,000 Common Shares, respectively, which may be acquired pursuant to options exercisable within 65 days of February 21, 1991, which options were issued to such persons pursuant to the Employee Incentive Stock Option Plan (1982).

(6) Excludes for Messrs. Howard, Macdonnell, Milavsky and Pierce and for Sir Graham Day, each of whom may be deemed to have, but disclaims, beneficial ownership of: 16,731; 6,125; 150; 1,460; and 790 Common Shares, respectively. The 16,731 Common Shares for Mr. Howard are held by certain of Mr. Howard's partners in the law firm of Howard, Mackie. The 6,125 Common Shares for Mr. Macdonnell are held by his spouse. The 150 Common Shares for Mr. Milavsky are held by his two daughters, who do not reside in the same residence as Mr. Milavsky. The 1,460 Common Shares for Mr. Pierce are held among his brother, sister-in-law and son, none of whom resides in the same residence as Mr. Pierce. The 790 Common Shares for Sir Graham Day are held by his wife. The foregoing respective associates and family of Messrs. Howard, Macdonnell, Milavsky and Pierce and of Sir Graham Day exercise sole voting and investment power over such Common Shares.

(7) Ms. Rennie is a nominee for election as a Director who is not presently a Director.

Committees and Meetings of the Board of Directors

The Board of Directors of the Corporation has a Management Resources and Compensation Committee, an Audit Committee and a Pension Committee.

The Management Resources and Compensation Committee of the Board of Directors reviews recommendations for the appointment of persons to senior executive positions, considers terms of employment including matters of compensation and recommends awards under the Employee Stock Option Plan (1982). The Management Resources and Compensation Committee is currently composed of Sir Alastair Morton and Messrs. Aird, Comrie, Estey and Pearson (Chairman), with Mr. Blair as an ex-officio member.

The Audit Committee of the Board of Directors meets with the Auditors of the Corporation and senior executives of the Corporation to review and inquire into matters affecting the financial reporting of the Corporation and to recommend to the Board of Directors the Auditors to be appointed. The Audit Committee is currently composed of Messrs. Coleman, Hotchkiss, Macdonnell (Chairman) and Milavsky.

The Pension Committee of the Board of Directors is responsible for the proper and orderly administration of the Corporation's pension plans and associated trust funds. The Pension Committee is currently composed of Messrs. Blair, Howard, Milavsky, Wilson and two executive officers, Messrs. Milner and Olson.

During the last fiscal year, January 1, 1990 to December 31, 1990, the Board of Directors of the Corporation held 12 meetings including regularly scheduled and special meetings, the Management Resources and Compensation Committee held six meetings, the Audit Committee held nine meetings and the Pension Committee held three meetings. Sir Alastair Morton attended fewer than 75% of the aggregate of: (a) the total number of meetings of the Board of Directors; and (b) the total number of meetings held by all committees of the Board on which he served.

Certain Relationships and Related Transactions

Certain Directors and executive officers of the Corporation have interests in transactions with the Corporation and its subsidiaries. Mr. W. A. Howard, Q.C., a Director of the Corporation, is a senior partner of the law firm of Howard, Mackie, which firm has provided and continues to provide legal services to the Corporation. Howard, Mackie has billed the Corporation and its subsidiaries an aggregate sum of approximately $2.6 million in respect of fees for services performed in 1990, which services were rendered in the ordinary course of business.

The Hon. J. B. Aird, O.C., Q.C. and Mr. P. L. P. Macdonnell, C.M., Q.C., Directors of the Corporation, are senior partners, respectively, in the law firms of Aird & Berlis and Milner Fenerty, and Sir Graham Day and the Hon. W. Z. Estey, C.C., Q.C., also Directors of the Corporation, are counsel, respectively, to Stewart McKelvey Stirling Scales and McCarthy Tétrault, which firms have provided and continue to provide legal services to the Corporation.

Pursuant to an agreement made as of March 7, 1990 the Corporation, two subsidiaries of the Corporation and Mr. J. H. Butler, a Director of the Corporation, agreed that effective July 1, 1990 Mr. Butler would cease to be President and an employee of the Corporation and would become a part-time employee of a U.S. subsidiary of the Corporation until October 27, 1993. Mr. Butler's duties include advising, investigating, planning and other assignments as requested by or on behalf of the subsidiary. Pursuant to this agreement the U.S. subsidiary has agreed to pay Mr. Butler a salary of U.S. $400,000 for the first year, U.S. $200,000 for the second year and U.S. $100,000 for the balance of the contract. The contract also provides Mr. Butler with moving expenses and with U.S. benefits equivalent to his former Canadian benefits. Mr. Butler will continue to be entitled to a pension under the Consolidated Pension Plan for his years of credited service to June 30, 1990. The agreement provides that he will continue to be entitled to supplementary pension

payments, under his Canadian retiring allowance agreement, computed with reference to earned pension under the Consolidated Pension Plan, that he will become a member of the U.S. Plan from July 1, 1990 and that provision will be made for supplementary pension payments for earned pension benefits from July 1, 1990 in excess of the Internal Revenue Service (U.S.) qualified pension benefit levels. (The Consolidated Pension Plan, the Canadian retiring allowance agreements providing for supplementary pension payments and the U.S. Plan are described below under "Statement of Executive Compensation — Plans — Pension Plans.") The agreement with Mr. Butler also transfers from the Corporation to the U.S. subsidiary the obligation under an earlier agreement to pay to Mr. Butler, in 1991, U.S. $200,000 (subject to reduction in certain cases) to compensate him for loss incurred by him in respect of the loss of certain rights under the Mobil Oil Company Pension Plan and Savings Plan and provides that the U.S. subsidiary will make an additional payment to Mr. Butler before January 31, 1992 of U.S. $200,000. The Corporation has guaranteed the payment of all sums payable by its U.S. subsidiary under the agreement.

The Corporation and C. L. Mort Consulting Inc. (a company wholly owned by Mr. Mort) have a verbal arrangement whereunder the Corporation has agreed to pay C. L. Mort Consulting Inc. $10,000 per month for two and one-half years from August 25, 1989 in exchange for consulting services of Mr. Mort and his company. In 1990 Mr. Mort was paid an additional $20,000 in excess of his monthly fee for services rendered by him to the Corporation in excess of the requirements of the original agreement.

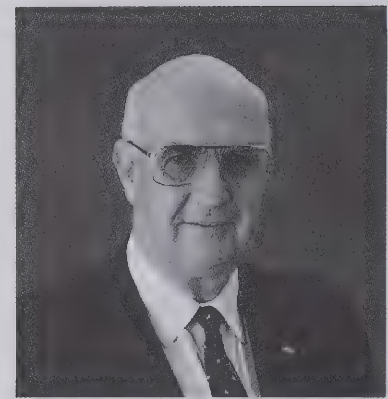
Directors of the Corporation and Nominees for Election as Directors

The Articles of Continuance of the Corporation (the "Articles") and the General By-law of the Corporation (the "General By-law") provide that the number of Directors to be elected at the Meeting shall be the number of Directors then retiring. At the annual meeting of the shareholders held on April 25, 1989 (the "1989 annual meeting"), the shareholders approved an amendment to the Articles and confirmed an amendment to the General By-law providing for the terms of office of the elected Directors of the Corporation to be staggered whereby approximately one-third of the number of Directors eligible for election will be elected each year.

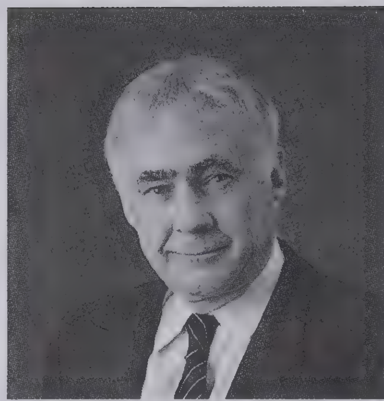
The Directors elected at the 1989 annual meeting were elected for the following terms: for a one year term expiring at the Corporation's 1990 annual meeting: Messrs. Estey, Macdonnell and Wilson and Sir Alastair Morton; for a two year term expiring at the Corporation's 1991 annual meeting: Messrs. Butler, Coleman, Hotchkiss and Pierce; and for a three year term expiring at the Corporation's 1992 annual meeting: Messrs. Aird, Blair, Howard and Pearson. On August 25, 1989 the Board of Directors of the Corporation appointed Mr. C. L. Mort as a Director of the Corporation to serve until the next annual meeting of shareholders. At the 1990 annual meeting, held on April 17, 1990, Messrs. Estey, Macdonnell, Mort and Wilson and Sir Alastair Morton were re-elected for a term of three years expiring at the Corporation's 1993 annual meeting. On October 26, 1990 the Board of Directors appointed Sir J. Graham Day as a Director of the Corporation and on February 21, 1991 the Board of Directors appointed Dr. F. Peter Boer as a Director of the Corporation, in each case to serve until the next annual meeting of shareholders.

In accordance with the NOVA Act, the Articles and the General By-law, the Board of Directors has determined that six Directors are to be elected at the Meeting by the holders of Common Shares. The term of office proposed for each nominee for election as Director is a term of three years expiring at the Corporation's 1994 annual meeting or until their successors are earlier elected or appointed. The nominees are Dr. F. P. Boer, Sir J. Graham Day, Messrs. R. B. Coleman, H. N. Hotchkiss and R. L. Pierce and Ms. J. G. Rennie.

Each person nominated for election as a Director at the Meeting is currently a Director of the Corporation except Ms. Rennie. Set forth hereafter in alphabetical order is the age (as of February 21, 1991) and principal occupation (including all positions currently held with the Corporation) of each nominee as well as of each other person who is a Director of the Corporation on the date hereof, the period, if any, during which each has served as a Director of the Corporation and certain other directorships held by each such Director or nominee. Each such Director or nominee has held his or her present principal occupation or executive position with the same or associated firms for the past five years except as set forth below. Proxies in favour of the persons named in the accompanying form of proxy will be voted in favour of the election for a three year term of each of the six persons named in the proxy as nominees. The Board of Directors and management do not contemplate that any of the nominees will be unable to serve as a Director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.



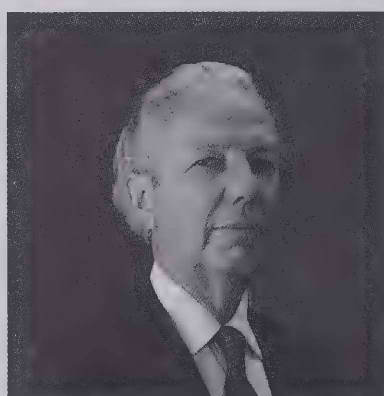
Hon. John B. Aird, O.C., Q.C. (67) has been a Director of the Corporation since August 26, 1988. He is Honorary Chairman and senior partner in the law firm Aird & Berlis in the City of Toronto where he resides. In 1986, the Hon. J. B. Aird was appointed Chancellor of the University of Toronto, and between 1980-1985 he served as the Lieutenant Governor of the Province of Ontario. The Hon. J. B. Aird is the Chairman of the Board of the Consumers' Gas Company Ltd., a gas utility company, Vice Chairman of the Board of Power Corporation of Canada, Deputy Chairman of the Board of Algoma Central Corporation and also serves on the Boards of Economic Investment Trust Limited, INCO Limited, The Molson Companies Limited, Reed Stenhouse Companies Limited, Mercedes-Benz Canada Inc., Housco Investments Limited, Jeam & Co. Limited, Lajahak Investments Limited, Rosseau Management Limited and Sherwood Inn, Limited.



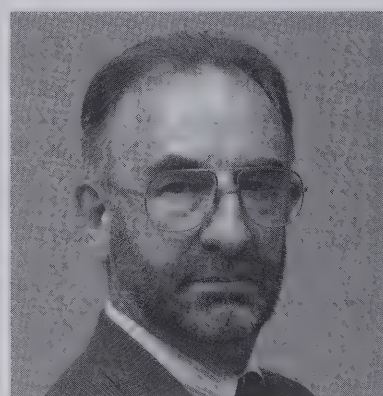
S. Robert Blair (61) served initially as a non-management Director of the Corporation during the 1960's, then entered full-time management of the Corporation in December 1969. He is Chairman and Chief Executive Officer of the Corporation and resides in the City of Calgary. He also serves on the Board of Hutchison Whampoa Limited.

Dr. F. Peter Boer (50) has been a Director of the Corporation since February 21, 1991 and resides in Greenwich, Connecticut. He is Executive Vice President of W. R. Grace & Co., a manufacturer of specialty chemicals; prior to January 1989 he was Senior Vice President of that company and prior to July 1986 he was Vice President of that company. He is also a director of W. R. Grace & Co. and is President-Elect of the Industrial Research Institute.

James H. Butler (59) has been a Director of the Corporation since January 22, 1988. He resides in St. Petersburg, Florida, and is an employee of Novacor Chemicals Inc., a U.S. plastics and petrochemicals subsidiary of the Corporation. Prior to July 1, 1990 he served as President of the Corporation and prior to April 1988, he served as Executive Vice President of the Corporation. Prior to April 1986 Mr. Butler served as Vice President, International Trade, Petrochemical Division of Mobil Oil Company and prior to January 1986 he was Vice President, Business Development and Joint Interests of that company.



Ronald B. Coleman (58) has been a Director of the Corporation since June 18, 1987. He resides in the City of Calgary and is President of R. B. Coleman Consulting Co. Ltd. and of Landmark Corporation, companies engaged in oil, gas and mining activities. He also is President and a director of Dominion Equity Resource Fund, Inc. and serves on the Boards of The Maritime Life Assurance Company and Nova Scotia Resources Ltd.

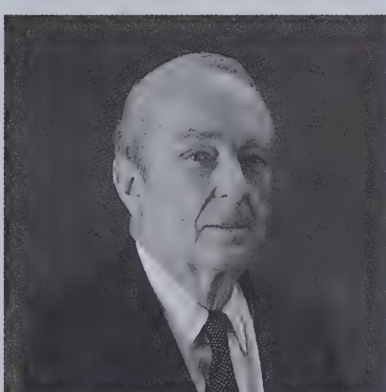


Sir J. Graham Day (57) has been a Director of the Corporation since October 26, 1990. He resides in London, England and is Chairman of the Board of Cadbury Schweppes PLC, a manufacturer of beverages and confectionery, and of Powergen PLC, an electrical power generating company, and he is Executive Chairman of the Board of Rover Group Holdings PLC, a company engaged in the manufacture and sale of automobiles. Prior to January 1989 he was Chairman and Chief Executive Officer of Rover Group Holdings PLC and prior to May 1986 he was Chairman and Chief Executive Officer of British Shipbuilders 1987. He is Chairman of the Board of Crombie Insurance Company (U.K.) Ltd. and Microtel Communications Ltd., Deputy Chairman of the Board of MAI plc and Deputy Chairman of the Supervisory Board of DAF nv. He also serves on the Boards of Altnacraig Shipping PLC, Avenir Havas Media SA, British Aerospace PLC, Crownx Inc., Jebsens Thun Shipping (Luxembourg) SA, The Bank of Nova Scotia, The Laird Group PLC, Thorn-Emi plc and VGM Capital Corporation.

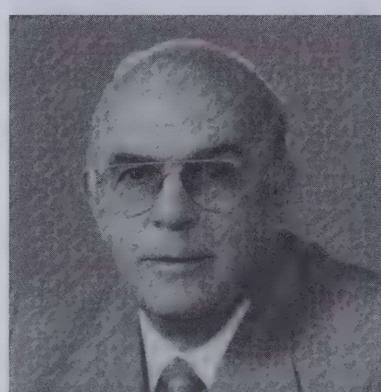
Hon. Willard Z. Estey, C.C., Q.C. (71) has been a Director of the Corporation since August 26, 1988. He resides in the City of Toronto. He is counsel to the law firm of McCarthy Tétrault and to Cablecasting Limited, a communications company. Prior to April, 1988 he was a Justice of the Supreme Court of Canada. He also serves on the Boards of MICC Investments Ltd. and Bramalea Limited and is Special Advisor to the Chairman of The Bank of Nova Scotia. In 1990 he was appointed Chancellor of Wilfred Laurier University, Waterloo, Ontario.

Harley N. Hotchkiss (63) has been a Director of the Corporation since May 11, 1979. He resides in the City of Calgary and is President of Spartan Resources Ltd. and other private companies investing in oil and gas, real estate and agriculture. Prior to June, 1988 he was President of Harman Resources Ltd. He also serves on the Boards of Conwest Exploration Company Limited, the Calgary Flames Hockey Club Ltd., Paragon Petroleum Corporation, Riverbend Farms (Ontario) Ltd., Telus Corporation, CWCP Resources Inc. and CFCP Resources Inc.

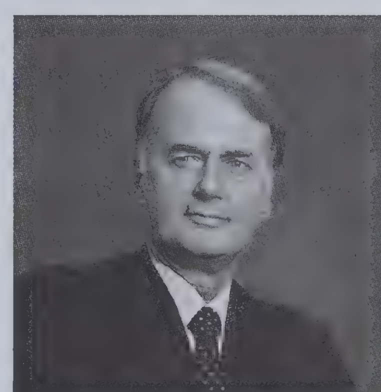
William A. Howard, Q.C. (72) has been a Director of the Corporation since May 13, 1977. He is a senior partner in the law firm of Howard, Mackie, and resides in the City of Calgary. He also serves on the Boards of Trilogy Resource Corporation, Irvco Resources Ltd. and Medis Western Inc.



Peter L. P. Macdonnell, C.M., Q.C. (71) has been a Director of the Corporation since July 17, 1972. He is a partner in the law firm of Milner Fenerty and resides in the City of Edmonton. He also serves on the Boards of Alberta Energy Company Ltd., Vencap Equities Alberta Ltd. and a subsidiary of the Corporation.

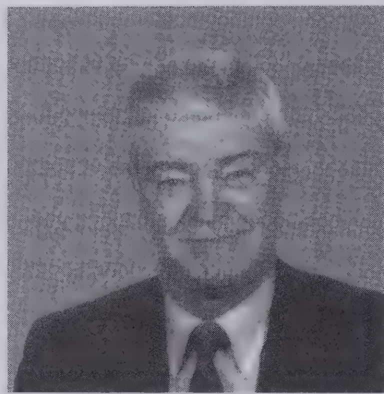


Clifford L. Mort (67) has been a Director of the Corporation since August 25, 1989. He resides in the City of Calgary and is President of C. L. Mort Consulting Inc., a company engaged in petrochemical and oil and gas operations and of Black River Resources Ltd., an oil and gas company. Through C. L. Mort Consulting Inc. Mr. Mort serves as a consultant to the Corporation and certain of its subsidiaries. He also serves on the Board of Cancom Ltd.



Sir R. Alastair Morton (53) has been a Director of the Corporation since January 27, 1989. He resides in London, England. He is Group Chief Executive of Eurotunnel, the company granted a concession to design, build and operate fixed links between Great Britain and France. Prior to February 1987 he was Chairman and Chief Executive of the Guinness Peat Group, a financial services company. He also serves on the Boards of Banque Nationale de Paris plc and of National Power plc.

H. J. Sanders Pearson (69) is Vice Chairman of the Board of the Corporation. He has been a Director of the Corporation since July 17, 1972. He resides in the City of Edmonton and is Chairman of Century Sales & Service Limited, a company engaged in the distribution of industrial tools and fasteners. Prior to June 1985 he was Chairman of the Board of the Corporation. He also serves on the Boards of The Mutual Life Assurance Company of Canada, Prudential Steel Ltd. and TransAlta Utilities Corporation.



Robert L. Pierce, Q.C. (61) has been a Director of the Corporation since May 13, 1977 and was the President of the Corporation until April 1988. Prior to January 1986 he was Executive Vice President of the Corporation. He resides in the City of Calgary. He is an executive of certain subsidiaries and affiliates of the Corporation and also serves on the Boards of a Canadian chartered bank, Husky Oil Ltd., Interstate Natural Gas Association of America and certain subsidiaries and affiliates of the Corporation.

Janice G. Rennie (33) resides in the City of Edmonton. She is Vice President of Princeton Developments Ltd., a commercial real estate developer; prior to June 1990 she was Vice President and Treasurer, prior to June 1987 she was Vice President and Comptroller and prior to April 1986 she was Comptroller of that company. She is also President of Bellanca Developments Ltd., President and Managing Director of Princeton Developments (Saskatchewan) Ltd. and Vice President of Calgary Centre Holdings Ltd.

William G. Wilson (55) has been a Director of the Corporation since January 22, 1988. He is Executive Vice President and Chief Financial Officer of the Corporation and resides in the City of Calgary. Prior to December 1986 he was President of Cominco Ltd. Mr. Wilson also serves on the Boards of BGR Precious Metals Inc., Pegasus Gold Inc. and certain subsidiaries of the Corporation.

Directors Appointed by the Lieutenant Governor in Council

The NOVA Act provides that four Directors of the Corporation must be residents of Alberta appointed by the Lieutenant Governor in Council of Alberta. The Directors presently in office who have been appointed by the Lieutenant Governor in Council are named immediately below. Also set forth below is the age (as of February 21, 1991) and principal occupation of each such Director, the period during which each has served as a Director of the Corporation and certain other directorships held by each Director. Each such Director has held his present principal occupation or executive position with the same or associated firms for the past five years except for Harold P. Milavsky, who prior to June 1986 was the President and Chief Executive Officer of Trizec Corporation Ltd., and Daryl K. Seaman, who prior to January 1988 was Chairman, President and Chief Executive Officer of Bow Valley Industries Ltd. The terms of appointment of Harold P. Milavsky and Daryl K. Seaman will expire at the termination of the Meeting, and the Corporation expects to receive information from the Lieutenant Governor in Council as to these positions before that date. The terms of appointment of William H. Comrie and J. Joseph Healy will expire at the termination of the annual meeting in 1992.

William H. Comrie (42) has been a Director of the Corporation since May 1, 1986. He resides in the City of Edmonton and is Chairman and Chief Executive Officer of The Brick Warehouse Corporation, a company engaged in the retail marketing of furnishings. He also serves on the Board of the Edmonton Eskimos Football Club.

J. Joseph Healy (61) has been a Director of the Corporation since April 19, 1977. He resides in the City of Edmonton and is the President of Healy Motors Limited, a company engaged in transportation.

Harold P. Milavsky (60) has been a Director of the Corporation since April 26, 1988. He resides in the City of Calgary and is Chairman of Trizec Corporation Ltd., a company engaged in development and management of commercial income properties. He is Chairman of the Board of Carena Developments Ltd. and Bowtex Energy (Canada) Corporation and also serves on the Canadian Boards of Amoco Canada Petroleum Company Ltd., Bramalea Limited, Brascan Limited, Coscan Development Corporation, Hees International, London Insurance Group and the London Life Insurance Company, Saskatchewan Oil & Gas Corporation and Telus Corporation. Mr. Milavsky is also a director of several U.S. companies, Ernest W. Hahn Inc. and The Rouse Company.

Daryl K. Seaman (68) has been a Director of the Corporation since April 9, 1973. He resides in the City of Calgary and is Chairman and Chief Executive Officer of Bow Valley Industries Ltd., a company engaged in natural resource exploration and development. He also serves on the Boards of Trimac Limited, Vencap Equities Alberta Ltd., Pan-Alberta Gas Ltd., the Calgary Flames Hockey Club Ltd., the OH Ranch Ltd., Potash Corporation of Saskatchewan Inc. and certain subsidiaries of the Corporation, and is Chairman of the Western Heritage Centre Society.

EXECUTIVE OFFICERS

The table below shows the name and age (as of February 21, 1991), positions held with the Corporation and principal occupations within the last five years of each executive officer of the Corporation. Unless otherwise noted, all positions listed in the table below are with the Corporation. Officers are appointed by the Board of Directors from time to time and serve at the discretion of the Board of Directors.

Name and Age	Position with the Corporation
Sidney Robert Blair (61)	Chairman of the Board of Directors and Chief Executive Officer
William George Wilson (55)	Executive Vice President and Chief Financial Officer
George Firman Bentley (57)	Senior Vice President
Pierre Choquette (48)	Senior Vice President
John Edwin Feick (47)	Senior Vice President
Donald Gene Olafson (54)	Senior Vice President
Bruce Wayne Simpson (46)	Senior Vice President
John Walter Frederick Cowell (46)	Vice President, Health, Safety and Environment
Richard Charles Milner (46)	Vice President and Treasurer
Jack Stephen Mustoe (43)	Vice President, General Counsel and Corporate Secretary
Brian Franklin Olson (39)	Vice President, Human Resources
Albert Terence Poole (48)	Vice President and Controller

Notes:

All of the above officers have held their present positions with the Corporation for the past five years, except as indicated below:

W. G. Wilson	Prior to December 1986, President of Cominco Ltd.;
G. F. Bentley	Prior to October 1988, President, Basic Petrochemical Division, Polysar Limited; prior to March 1988, Group Vice President, Basic Petrochemicals Division, Polysar Limited;
P. Choquette	Prior to October 1988, President, Polymers Division, Polysar Limited; prior to March 1988, Group Vice President, Rubber, Polysar Limited; prior to August 1986, Vice President, Rubber, North and South America, Polysar Limited;
J. E. Feick	Prior to April 1988, President of Novacor Chemicals Ltd.; prior to April 1987, Senior Vice President of the Corporation;
D. G. Olafson	Prior to October 1988, Division Senior Vice President, Alberta Gas Transmission Division of the Corporation and President, Novacorp International Consulting Inc.;
J. W. F. Cowell	Prior to October 1988, Vice President, Occupational Health and Safety of the Corporation;
R. C. Milner	Prior to October 1988, Vice President, Treasurer and Corporate Secretary of the Corporation; prior to June 1987, Vice President and Treasurer of the Corporation;
J. S. Mustoe	Prior to October 1988, Vice President and General Counsel of the Corporation; prior to May 1988, Assistant General Counsel, Norcen Energy Resources Limited;
B. F. Olson	Prior to October 1988, Corporate Vice President of the Corporation;
A. T. Poole	Prior to March 1988, Vice President of Phillips Cables Ltd.

STATEMENT OF EXECUTIVE COMPENSATION

Definitions

For the purposes of this Statement, "executive officer" of the Corporation means the Chairman of the Board of Directors, the President, any Vice President in charge of a principal business unit, division or function such as sales, administration, finance or production and any other officer of the Corporation or a subsidiary who performs a policy-making function in respect of the Corporation, whether or not such officer is also a Director of the Corporation or a subsidiary, and any other person who performs similar policy-making functions for the Corporation.

Cash Compensation

The following table sets forth the aggregate cash compensation paid by the Corporation and its subsidiaries for services rendered during 1990 to (a) each of the five most highly compensated executive officers of the Corporation and (b) all executive officers as a group (15 persons).

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash Compensation (1) (2) (3)
S. R. Blair	Chairman of the Board of Directors and Chief Executive Officer	$ 817,462
W. G. Wilson	Executive Vice President and Chief Financial Officer	$ 505,404
J. E. Feick	Senior Vice President	$ 298,118
P. Choquette	Senior Vice President	$ 289,911
B. W. Simpson	Senior Vice President	$ 283,360
15 executive officers as a group (including those listed herein) (4)		$4,921,493

Notes:

(1) Includes amounts contributed by the Corporation under the Savings Plan described below.

(2) Executive officers receive no directors' fees for service on the Board of Directors of the Corporation, its subsidiaries or affiliates.

(3) Includes bonuses paid in 1991 under the Corporation's Management Incentive Plan in respect of work done in 1990.

(4) This table and the information following in this Statement of Executive Compensation includes amounts paid to R. L. Pierce, a member of the Corporation's Consolidated Management Committee. They also include amounts paid to J. H. Butler, President of the Corporation until July 1, 1990, only while he was President of the Corporation, and D. A. Henderson, a Senior Vice President of the Corporation until October 1, 1990, while he was Senior Vice President. In Mr. Henderson's case these amounts include a bonus paid to him as President of the Corporation's Rubber Division on the sale of that division.

Plans

MANAGEMENT INCENTIVE PLAN AND BONUSES

Under an informal plan or arrangement (the "Management Incentive Plan"), management can recommend to the Management Resources and Compensation Committee of the Board of Directors of the Corporation the awarding of bonuses to employees on an individual basis for the prior fiscal year. The Management Resources and Compensation Committee considers the recommendations of management and makes recommendations to the Board of Directors, and bonuses are paid based on the Board of Directors' decision. The criteria used for the determination of the amount of any bonus are (a) the performance of the Corporation, (b) the performance of the appropriate division or subsidiary of the Corporation, (c) the bonus practice in competitive companies and (d) the individual executive, managerial, professional or administrative achievement for the Corporation made by each individual. In 1991, bonuses were paid to executive officers under the Management Incentive Plan for services rendered during the calendar year 1990 and are included in the Cash Compensation table above. Also included in the Cash Compensation table above is a performance bonus given outside of the Management Incentive Plan to Mr. Henderson for his role in preparing the Corporation's Rubber Division for sale and his management actions in the period prior to its sale.

PENSION PLANS

Until December 31, 1989, the Corporation provided different pension plans to salaried employees, including executive officers, of the Corporation and certain subsidiaries (the "NOVA Plan") and to executive officers of Polysar Limited (the "Polysar Plan"). There was also a separate plan for salaried employees, other than executive officers, of Polysar Limited. These plans were amended as of January 1, 1990 to provide substantially equivalent pension benefits to all Canadian salaried employees of the Corporation and certain subsidiaries, including executive officers (the "New Plans"). The New Plans have been filed with and are pending approval by regulatory authorities. A member's pension will be composed of benefits in the NOVA Plan or the Polysar Plan for service up to December 31, 1989 and in the New Plans for service from January 1, 1990 (the "Consolidated Pension Plan").

The NOVA Plan was a non-contributory defined benefit pension plan for all employees, including executives, of the Corporation and certain subsidiary and affiliated companies. Membership was automatic after the completion of one year of continuous service with the Corporation. Directors who were not employees

or executive officers of the Corporation were not eligible to participate in the NOVA Plan. This Plan provided a benefit based on the average of the five highest years annual base salary which became vested only after an employee had five years of continuous service with the Corporation. NOVA Plan benefits were calculated as follows:

(A) 1.4% of the highest five years average salary up to the Canada Pension Plan Yearly Maximum Pensionable Earnings ceiling; and

(B) 2% of the highest five years average salary above this ceiling.

The aggregate value of (A) and (B) was multiplied by years of credited service.

The Polysar Plan included certain executive officers of the Corporation and provided benefits similar to those provided under the NOVA Plan except that:

(A) vesting under the Polysar Plan occurred after two years of Polysar Plan membership and;

(B) 2% of the highest 36 months earnings in the last 10 years minus the estimated Canada Pension Plan payments (which is 0.7% of earnings up to the Canada Pension Plan ceiling) were considered in calculating the pension benefit.

Unreduced retirement benefits under the NOVA Plan were available after attainment of age 62; partial actuarial reductions applied otherwise. The Polysar Plan's early retirement benefits reduced the benefit by 5/12ths of 1% for each month that early retirement preceded age 62 plus 1/12th of 1% for each month by which 85 exceeded the sum of attained age and continuous service. The Canada Pension Plan offset took effect from age 65 (the "Normal Retirement Date") and an additional bridging supplement was payable to the Normal Retirement Date if early retirement took place on or after the attainment of age 62.

Subject to regulatory approval, the provisions of the New Plans became effective as of January 1, 1990. The New Plans are non-contributory defined benefit pension plans for all salaried employees including executive officers of the Corporation and certain subsidiaries but excluding Directors who are not employees or executive officers of the Corporation. Membership in the New Plans is automatic. The New Plans provide a benefit based on the average of the 36 highest consecutive months base salary in the last 10 years. New Plan benefits are calculated as follows:

(A) 1.0% of the highest 36 months of average base salary in the last 10 years up to the Canada Pension Plan Yearly Maximum Pensionable Earnings ceiling; and

(B) 1.6% of the highest 36 months of average base salary in the last 10 years above this ceiling.

The aggregate value of (A) and (B) is multiplied by years of credited service.

The Consolidated Pension Plan provides a benefit based on the average of the 36 highest consecutive months base salary in the last 10 years. Consolidated Pension Plan benefits are partially indexed to inflation at the rate of 75% of the increase in the Consumer Price Index, Canada, less 1%, to a maximum of 5% per year.

All Consolidated Pension Plan benefits are paid by an independent trustee on a monthly basis to the annuitant. Such benefits are exclusive of amounts payable under the Canada Pension Plan.

Under the Consolidated Pension Plan, unreduced retirement benefits are the same as those in the NOVA Plan unless the member was a former member of the Polysar Plan in which case he may have elected to retain the early retirement provisions of the Polysar Plan.

Consolidated Pension Plan benefits are paid in the form of a lifetime pension which, in normal form, continues at a rate of 60% to a surviving spouse upon the death of the pensioner. If the pensioner does not have a spouse at the time of retirement, the benefits are paid as a lifetime pension with a guaranteed payment for five years. Consolidated Pension Plan benefits are fully vested after two years of membership in the Consolidated Pension Plan.

The Consolidated Pension Plan benefits are subject to maximum annual benefits of $1,715 per year of credited service. The aggregate benefits of all executive officers are affected by these maximum pension benefits. The following table illustrates the operation of the Consolidated Pension Plan in relation to executive officers as a result of the maximum pension benefits:

	Years of Service					
	10	15	20	25	30	35
Annual pension	$17,150	$25,725	$34,300	$42,875	$51,450	$60,000

The years of credited service in the Consolidated Pension Plan to December 31, 1990 for the following executive officers are: Mr. Blair, 21.1 years; Mr. Wilson, 4.0 years; Mr. Feick, 13.9 years; Mr. Choquette, 15.25 years; and Mr. Simpson, 19.5 years. In addition, Mr. Choquette has 2.75 years of service in the pension plan of Novacor Chemicals Inc. (the "U.S. Plan") to reflect his service in the United States.

The U.S. Plan is a non-contributory, defined benefit pension plan for all non-unionized employees in the United States, including executives of Novacor Chemicals Inc. and certain subsidiary and affiliated companies. The U.S. Plan provides a benefit based on the average of the highest consecutive 36 months of base pay during the last 10 years with the relevant corporation. The U.S. Plan benefits are calculated as 1.2% of final average earnings times years of pensionable service.

The early retirement provisions of the U.S. Plan are the same as those of the Consolidated Pension Plan. Benefits are paid in the form of a lifetime pension which, in normal form, continues at a rate of 50% to a surviving spouse upon the death of the pensioner. The pension is actuarially reduced to provide for this form of pension.

Benefits in the U.S. Plan are limited by the Employee Retirement Income Security Act (U.S.) which effectively limits earnings to $200,000 (indexed from 1986) and total pension payable to $90,000 (indexed from 1986).

The Corporation has entered into pension agreements with certain officers and employees, including Messrs. Wilson, Feick, Choquette and Simpson. The agreements provide for supplementary pension payments, which are computed with reference to the earned pension under the Consolidated Pension Plan. These supplementary payments would be above the $1,715 per year of credited service permitted by the Consolidated Pension Plan and, therefore, would not be deductible for income tax purposes by the Corporation until paid to the respective officer. The aggregate pension payments resulting from such agreements and the pension payments payable under the Consolidated Pension Plan would be generally equivalent to the benefit which is earned under the Consolidated Pension Plan without the maximum annual benefit under the Consolidated Pension Plan of $1,715 per year of service to a maximum of 35 years.

The Corporation has also entered into an agreement with certain officers and employees who have transferred between pension plans in differing national jurisdictions. This agreement applies to Mr. Choquette with regard to his service in Canada and the U.S. It provides that the aggregate of Mr. Choquette's pension from the Corporation's plans in each jurisdiction where he has accrued pension service, including pension earned in public plans to which the Corporation contributes, will not be less than the pension he would have received from the Consolidated Pension Plan and the Canada Pension Plan had he spent his whole career in Canada.

The Corporation has entered into supplemental pension agreements with each of Messrs. Blair and Pierce. Under such agreements Messrs. Blair and Pierce will receive total pension benefits equal to certain percentages of their respective average annual salaries earned over a certain period as officers of the Corporation, including benefits payable under the Consolidated Pension Plan but excluding benefits payable under the Canada Pension Plan. The future supplemental pension payments to Messrs. Blair and Pierce on their respective retirements from service to the Corporation are expected to amount to $291,000 and $157,000, respectively, per year. The Corporation has also agreed to continue to employ Mr. R. L. Pierce until December 31, 1991, subject to earlier termination in certain events.

LONG TERM DISABILITY

The Corporation provides executive officers with supplementary long term disability plan coverage during the second and subsequent years of a disability which prevents such executive officers from carrying out their duties. This plan supplements the coverage provided under the Corporation's long term disability plan for all employees under which an employee can elect to receive either participation in a Corporation paid plan which provides 70% (taxable) of an employee's salary up to $10,000 per month during a disability or the equivalent of the Corporation's premium in cash. In the event the employee elects the cash payment, he must enroll in an employee paid plan which provides 60% (non-taxable) of an employee's salary up to $10,000 per month during a disability.

The benefit coverage provided under the supplementary plan is:

the benefit of the general plan elected (either 70% taxable or 60% non-taxable) on the first $100,000;
50% (taxable) of salary on the second $100,000;
30% (taxable) of salary on the third $100,000;
10% (taxable) of salary on the balance of the executive officer's base salary.

During 1990 no executive officer became eligible for disability coverage. No benefits are payable under this plan in 1991 as there is a one year waiting period for benefit coverage under this plan.

SAVINGS AND PROFIT SHARING PLAN

Prior to 1990, the Corporation provided a voluntary savings plan (the "Savings Plan") for all permanent employees after one year of continuous service as a vehicle for long term savings funded by employee contributions and by the Corporation.

Effective January 1, 1990, the Savings Plan was amended and restated as the Savings and Profit Sharing Plan (the "Profit Sharing Plan") and was extended to employees of Novacor Chemicals (Canada) Ltd. (a company formed during the reorganization of Polysar Limited and into which Polysar Limited was wound-up effective January 1, 1990) and other affiliates and subsidiaries of the Corporation. All employees who were permanent employees of the Corporation, Novacor Chemicals (Canada) Ltd. or certain designated affiliates or subsidiaries on January 1, 1990 were automatically members in the Profit Sharing Plan. Other employees become members upon the completion of one year of continuous service. Employee contributions to the Profit Sharing Plan are not required but are permitted. Corporation contributions are made twice monthly and are immediately vested. Corporate contributions may be allocated to: eligible contributions used to purchase Eligible Common Shares which attract the Share Purchase Incentive Contribution described below and are subject to a hold requirement; ineligible contributions used to buy Common Shares which do not attract the Share Purchase Incentive Contribution and are not subject to the hold requirement; a portfolio of Canadian money market investments; or semi-monthly cash payments. Corporate contributions are described below:

(A) A basic savings contribution equal to 4% of an employee's basic monthly salary;

(B) A profit-sharing contribution of 0% - 6% of basic annual salary. The percentage depends on the business performance of the Corporation in the previous fiscal year with performance being measured against an annual earnings target established by the Management Resources and Compensation Committee of the Board of Directors;

(C) Share Purchase Incentive Contributions of $0.20 for every dollar of the Corporation's contributions and of employee voluntary contributions to a maximum of 4% of salary designated by the employee as eligible for investment in Eligible Common Shares.

Total corporate contributions under the Profit Sharing Plan for 1990 were: (a) Mr. Blair, $32,458, Mr. Wilson, $20,400, Mr. Feick, $13,118, Mr. Choquette, $12,903, and Mr. Simpson, $13,360; and (b) executive officers as a group, $188,467. These corporate contributions include the basic savings component and, where applicable, the Share Purchase Incentive Contribution; the Corporation did not pay a profit sharing contribution for 1990. Messrs. Blair, Wilson, Feick, Choquette and Simpson joined the Savings Plan or the Profit Sharing Plan in 1986, 1988, 1978, 1990 and 1972, respectively. Directors who are not full-time employees are not eligible to participate in the Profit Sharing Plan.

EMPLOYEE INCENTIVE STOCK OPTION PLAN

The Employee Incentive Stock Option Plan (1982) (the "Stock Option Plan") was approved by shareholders of the Corporation at the annual meeting of the Corporation on April 26, 1988. The Stock Option Plan was first created effective as of September 10, 1982 and was most recently amended June 23, 1989 by the Board of Directors of the Corporation. On April 25, 1989 the shareholders of the Corporation approved the reservation of an additional 4,658,150 Common Shares for issuance under the Stock Option Plan.

The Stock Option Plan provides that the Board of Directors may grant to officers and employees of the Corporation or its more than 50% controlled direct or indirect subsidiaries (the "Subsidiaries") options to purchase from treasury Common Shares of the Corporation. The number of Common Shares reserved for issuance under the Stock Option Plan was 13,448,450 as at February 21, 1991, subject to adjustments as

provided therein. All Common Shares issued upon the exercise of any option are issued as fully paid and non-assessable. The Board of Directors may also, as part of the option, grant a right to an employee to surrender all or part of his right to acquire Common Shares under such option in exchange for receiving, without any further consideration, the number of Common Shares equal to a fraction of the number of Common Shares which could have been purchased with the surrendered portion of the option, based on the ratio of the premium of the current market price over the exercise price to such market price. The Stock Option Plan provides that the Board of Directors may, in respect of any option, specify a number or percentage of Common Shares for which the employee may exercise his option in any specific period, year or number of years.

The purpose of the Stock Option Plan is to provide, through options to purchase Common Shares, incentive for key employees of the Corporation and its Subsidiaries to produce constant improvement in operating results, to remain as employees, to become the owners of Common Shares and to contribute to the growth in value of the Common Shares.

The criteria used for granting options to executive officers consists of: (a) the relative level of success or achievement of the executive officer; (b) the level of responsibility given to a newly appointed executive officer; (c) whether or not the executive officer has been given additional responsibilities; and (d) the number of shares under options then held by an executive officer. In all cases the granting of options is made by the Board of Directors based upon the recommendations of a committee appointed by the Board of Directors (the "Committee").

When options are exercised, the payment for the Common Shares purchased thereunder must be made contemporaneously. The options are generally granted at the closing market price on The Toronto Stock Exchange on the date the grant is made by the Board of Directors.

If any options are surrendered or terminated prior to exercise, the Common Shares represented by such options become available for reallocation under the Stock Option Plan. The Stock Option Plan provides for an adjustment in the number of optioned Common Shares subject to outstanding options thereunder, as well as the number of optioned Common Shares available for grant under the Stock Option Plan, to reflect any stock split, stock dividend or similar capital adjustment of or by the Corporation, or to reflect any reorganization of the Corporation, all at the determination of the Board of Directors.

The Corporation did not grant any stock options during the period January 1, 1990 through December 31, 1990, inclusive. One executive officer exercised options for 2,500 Common Shares in that period at a net realized value of $5,072.50. Net realized value is the difference between the market value on the dates of exercises and related option exercise prices.

TERMINATION AGREEMENT

Pursuant to an agreement made as of March 20, 1990 between a subsidiary of the Corporation and Mr. D. A. Henderson, then a Senior Vice President of the Corporation and a Division President of the subsidiary, the subsidiary agreed to pay certain sums to Mr. Henderson and expend certain additional sums on his behalf in the event of the termination (other than for cause) of, or a material adverse change in the terms of, his employment with the Rubber Division of the Corporation, or a requirement that he relocate his principal residence, within two years of the sale of the Rubber Division, which occurred on October 1, 1990. Upon the sale of the Rubber Division this agreement was assigned to the purchaser of the Rubber Division and guaranteed by the purchaser's parent corporation; however, the Corporation's subsidiary was not released from its obligations and thus has a contingent liability to Mr. Henderson under the agreement in the event that the Rubber Division purchaser or its parent corporation does not fulfill such obligations. The exact amount of this contingent liability is not capable of calculation as it arises from several formulae based on salary and benefit entitlements at the time of Mr. Henderson's termination. If the obligations under the agreement had become due and owing on October 1, 1990, such obligations would have aggregated approximately $991,500 based on Mr. Henderson's salary and benefits immediately prior to that date.

Compensation of Directors

Each Director who is not a full-time employee of the Corporation is paid a retainer fee of $10,000 per year which is paid quarterly, an attendance fee of $1,500 for each meeting attended and a travel fee of $1,500 for one travel day prior to each meeting attended. Directors who are full-time employees of the Corporation

do not receive directors' fees. Directors who are members of the Management Resources and Compensation Committee of the Board of Directors and the Audit Committee of the Board of Directors and who are not full-time employees of the Corporation are paid $1,500 for each committee meeting attended except in the case of the chairman of each such Committee, to whom a fee of $3,000 (including the $1,500 attendance fee) is paid for each meeting attended. Directors who are members of the Pension Committee and who are not full-time employees of the Corporation are paid $1,500 for each committee meeting attended. In addition, three Directors who are not full-time employees of the Corporation sit on the Corporation's Corporate Contributions Committee (which is not a committee of the Board) and were each paid $1,000 per meeting attended in 1990; this fee has been reduced to $600 per meeting for 1991.

Other Compensation

The aggregate value of all other non-cash compensation paid to executive officers for services rendered in 1990 was approximately $100,000 and did not, in any event, exceed $25,000 per executive officer.

APPOINTMENT OF AUDITORS

It is proposed that Ernst & Young, Chartered Accountants, be appointed to act as Auditors for the current year. Ernst & Young (formerly Clarkson Gordon) has served as Auditors of the Corporation since 1956. Representatives of Ernst & Young are expected to be present at the Meeting and will be given the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

AMENDMENTS TO GENERAL BY-LAW

Since the last annual meeting of shareholders the Board of Directors has approved two amendments to the General By-law, the first on June 22, 1990 and the second on January 31, 1991. Pursuant to section 98 of the Business Corporations Act (Alberta) (the "ABCA") the Directors have the power to amend by-laws and such amendments are effective on the date they are made. However, section 98 of the ABCA requires such amendments to be confirmed by the shareholders by ordinary resolution at the next meeting of shareholders. If these amendments are so confirmed they will continue in force. If they are rejected they will cease to be effective after the date of the Meeting. The shareholders also have the option to propose amendments to these amended by-laws and to confirm or reject them as so amended.

The amendments to the General By-law proposed for confirmation at the Meeting are as follows:

(a) On June 22, 1990 the Board amended the General By-law by deleting section 4.03 thereof and substituting it with the following (the "June 22, 1990 Amendment"):

> "4.03 The Board may (a) appoint a President to fill a vacancy, or (b) leave the office of President vacant pending the appointment of a President at a later date.
>
> The President need not be a member of the Board."

The previous section 4.03 made the filling of the office of President mandatory. Mr. J. H. Butler advised the Board before the June 22, 1990 Board Meeting of his intention to resign as President, and subsequently relinquished his position as President as of July 1, 1990. The Board decided that at the time of such relinquishment it would not appoint a new President but that from time to time and for an indefinite period the Division Presidents of the Corporation would work directly with the Chairman and Chief Executive Officer. In order to implement that decision the Board made the June 22,1990 Amendment so as to make the replacement of the President permissive rather than mandatory. If the June 22, 1990 Amendment is not confirmed the Board will be immediately required to appoint a new President, which it does not at present deem necessary or advisable for the effective management of the Corporation.

(b) On January 31, 1991 the Board amended the General By-law by deleting subsection 5.03(d) thereof and substituting it with the following (the "January 31, 1991 Amendment"):

> "(d) an employee or former employee of the Corporation,".

Section 5.03 of the General By-law provides an indemnity to present and former directors, officers and employees of the Corporation and persons who act or formerly acted at the Corporation's request

as directors or officers of corporations of which the Corporation is a shareholder or creditor for certain of their actions while they were directors, officers or employees of such entities. This indemnity has been in the General By-law since March 11, 1983 but, until the January 31, 1991 Amendment, it only applied to existing, not former, employees, while it applied to both existing and former directors and officers. It was considered by the Board to be appropriate that former employees be included in the indemnity for their actions during the course of their employment with the Corporation and for this reason the January 31, 1991 Amendment was made.

At the Meeting shareholders will be asked to confirm by ordinary resolution each of the June 22, 1990 Amendment and the January 31, 1991 Amendment. An ordinary resolution is a resolution passed by a majority of the shareholders who vote in respect of that resolution.

SHAREHOLDER PROPOSALS

Shareholder proposals to be considered at the 1992 Annual Meeting of Shareholders of the Corporation must be received at the principal executive offices of the Corporation no later than January 18, 1992 to be included in the proxy statement and form of proxy for such Annual Meeting.

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

The contents and the sending of this Information Circular - Proxy Statement have been approved by the Board of Directors.

By Order of the Board of Directors

(Signed) S. ROBERT BLAIR, C.C.
Chairman of the Board
and Chief Executive Officer

(Signed) WILLIAM G. WILSON
Executive Vice President
and Chief Financial Officer

Calgary, Alberta
March 18, 1991

RONALDS PRINTING
Printed in Canada

1994

Operating Excellence

In 1994, we combined a highly disciplined execution of our strategy with a focused effort to lower our costs and deliver high productivity growth throughout NOVA. These efforts should produce further important gains in 1995. We believe each of our businesses will be a cost leader or will rank among the best by the end of 1995. Each business and each function within NOVA is completing a systematic transformation of all business processes.

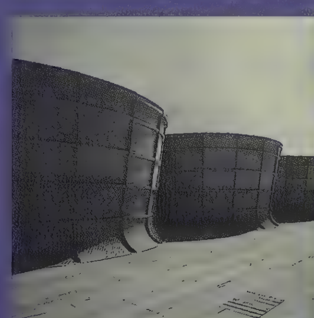
Loading SCLAIR® polyethylene rail cars near Sarnia, Ontario.

→ In 1993 and 1994, Novacor Chemicals completed several low-capital-cost capacity expansions at its facilities. These expansions, coupled with a strong emphasis on maximizing the productive capabilities of our facilities, have coincided with a recovery in chemical prices.

→ We made two fundamental improvements to our polyethylene business. First, we expanded our polyethylene capacity by 295 million pounds, and added 110 million pounds of ethylene capacity as well. Second, we acquired DuPont Canada's polyethylene resin business and proprietary SCLAIRTECH technology and licencing business. Our current polyethylene production capacity is 2.4 billion pounds per year – 50% higher than in 1993 – all supplied with our own ethylene.

→ We expanded polystyrene production capacity to 760 million pounds by year-end, up from 680 million pounds in 1993, including a 20% increase in capacity at our Indian Orchard, Massachusetts facility.

→ Our gas transmission system set new records for volumes delivered (4.1 trillion cubic feet). We invested $826 million – a single-year record – in new facilities. This investment contributed to an 11% growth in the pipeline's average investment base.



Cooling towers at Methanex's Medicine Hat, Alberta facility.

→ NOVA's gas pipeline met all of its firm service delivery commitments in 1994, with the exception of a one-day outage at one of its 49 compressor stations.

→ For the third successive year, we substantially increased investment in employee training and development. Through our second comprehensive employee survey, NOVA's employees noted that this investment is beginning to deliver results.

→ Improved productivity and higher volumes made an important contribution to 1994 net income. We believe these same factors will make a significant contribution to earnings in 1995 as well. However, the overwhelming contributor to our record earnings was the recovery in petrochemical prices.

→ Our Corunna, Ontario petrochemicals facility completed an ambitious 34-day planned shutdown, including $6 million of capital investments, which delivered a 5% increase in ethylene and propylene capacity. Almost all shutdown activities were managed through five major fixed-price contracts, resulting in considerable savings over previous turnarounds typically involving dozens of contracts.

→ NOVA's gas pipeline employees achieved the lowest lost-time injury frequency in 12 years. This accomplishment is even more significant considering record levels of construction activity in 1994. Novacor Chemicals achieved several safety milestones, including a remarkable 11 years without a lost-time accident at the Calgary Technical Centre. NOVA's overall environment, health and safety management systems are now ranked in the first quartile of North American business.

NOVA at-a-glance

Petrochemicals

NOVA's petrochemicals business boasts low costs, modern facilities and good market positions in its areas of focus. We are a large North American player with excellent growth prospects. Our polymers facilities are largely supported by and integrated into our petrochemicals production.

ETHYLENE

NOVA is one of the world's largest and lowest-cost producers of ethylene. We have 3.4 billion pounds of capacity in Alberta and 1.5 billion pounds of capacity in Ontario. More than 2 billion pounds of our ethylene was upgraded into polymers in 1994, up from 1.4 billion pounds in 1993.

POLYETHYLENE

NOVA is one of North America's largest and lowest-cost producers of polyethylene. NOVA has 1.2 billion pounds of polyethylene capacity in Alberta and 1.2 billion pounds of capacity in Ontario. Our total 1995 capacity of 2.4 billion pounds is up 50% from 1.6 billion pounds of capacity in 1993.

STYRENE

We have made rapid progress toward a low-cost position. We have 600 million pounds of capacity in Ontario, and 400 million pounds from a long-term supply arrangement with ARCO Chemical Company.

POLYSTYRENE

We have made rapid progress toward a highly productive, low-cost position. NOVA has facilities in Montreal, Quebec; Decatur, Alabama; and Indian Orchard, Massachusetts, with a total capacity in 1995 of 760 million pounds, up from 680 million pounds in 1994.

METHANOL

Methanex Corporation is the world's largest and lowest-cost producer of methanol. Methanex's 1995 capacity is expected to reach 1.6 billion U.S. gallons, up from 755 million U.S. gallons at the end of 1993. In 1994, Methanex purchased an additional 489 million U.S. gallons of methanol for resale. NOVA owns 24% of Methanex, and has three seats on its Board of Directors.

PROPYLENE

In 1994, NOVA produced 627 million pounds of propylene at its Corunna, Ontario facility. Propylene is upgraded into polypropylene by NOVA and is also sold to third parties.

POLYPROPYLENE

NOVA has made good progress in developing tailored specialty polypropylene resins. NOVA owns one plant at Marysville, Michigan, with 140 million pounds of capacity.

	typical end uses
ethylene/polyethylene →	ethylene glycol, plastic bags, pipe, drums, toys and bottles
methanol* →	formaldehyde, acetic acid, methyl tertiary butyl ether (MTBE)
styrene/polystyrene →	food packaging, appliance parts, synthetic rubber, compact disc cases
propylene/polypropylene →	automotive parts, children's car seats

*NOVA owns 24% of Methanex Corporation

NOVA Gas Transmission

NOVA Gas Transmission Ltd. (NGTL) is a large, low-cost, rapidly expanding gas pipeline company. The role of NGTL is to help make the Western Canada Sedimentary Basin the supply basin of choice for North American consumers of gas. This basin is the largest, lowest-cost, least-explored, most rapidly expanding producing basin in North America.

Continued expansion of output from this basin will support rapid growth in NGTL for the foreseeable future. NGTL delivered 4.1 trillion cubic feet of natural gas in 1994. This represents 80% of the gas produced in Canada in 1994 and 15% of the gas produced in North America.

How NGTL makes money
↓
NOVA Gas Transmission investment base
x
the approved common equity per cent
x
the after-tax rate of return on common equity
=
net income

12,600 miles of pipe

49 compressor stations

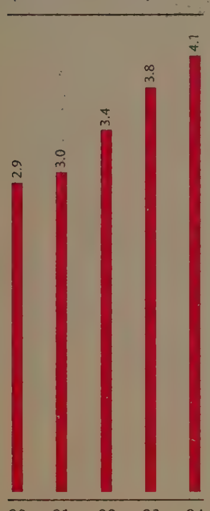
1,070 receipt & delivery points

International Gas Services

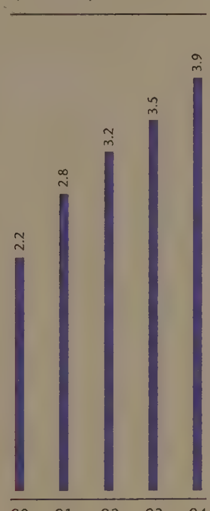
The current focus of our international business is as an investor and operator in the natural gas services industry. In the recent past, NOVA has invested in pipelines privatized by governments and has helped design and build new pipeline systems. During 1994, the TGN pipeline in Argentina was expanded, a minority interest was acquired in the Moomba-Sydney pipeline in Australia and the proposed GasAndes project to transport Argentine gas to Chile was significantly advanced.

The second arm of this business is in pipeline consulting, where we have carried out over 300 projects in more than 50 countries over the past 20 years. Consulting teams are operating today in Malaysia, Pakistan, Argentina, Chile and Mexico. The largest team is working with OGP Technical Services, a joint venture with Petroliam Nasional Berhad in Malaysia. In 1994, we established Arcan Ingeniera y Construcciónes S.A., an Argentina-based partnership with Idesa Ingeniera S.A., to provide engineering and construction services in the Southern Cone basin in South America.

NGTL
GAS DELIVERIES
(trillion cubic feet)



NGTL AVERAGE
INVESTMENT BASE
($ billions)



North American Gas Services

This unit's business focus is on gas marketing and trading, gas liquids marketing, and owning and operating gas gathering and processing systems to serve producers of natural gas.

NATURAL GAS CLEARINGHOUSE (NGC)

NOVA owns a 39.1% interest in NGC. British Gas also owns 39.1%, and NGC's management owns the remainder. NGC gathers, processes and markets natural gas, and also markets crude oil and natural gas liquids. In early 1995, NGC will combine its operations with Trident, a fully integrated U.S.-based natural gas liquids company, subject to Trident shareholder approval. This transaction will more than double NGC's size. NOVA will invest an additional $95 million and its share of the new company will be approximately 34%. NOVA expects to hold three of ten seats on the new company's Board of Directors.

PAN-ALBERTA GAS

NOVA owns 100% of Pan-Alberta. It is a leading marketer and exporter of Canadian gas, offering services to Canadian producers on a fee basis.

NOVAGAS CLEARINGHOUSE

This new venture is off to a fast start in the gathering, processing and marketing business in Canada, offering a wide range of services to producers in the Western Canada Sedimentary Basin and to customers across Canada. Novagas has rapidly built its gas marketing business, selling an average of 1 billion cubic feet per day by late 1994. Novagas also built its first gas processing plant, and announced plans to build a second gas plant and a $13 million pipeline in 1995. NOVA owns 50.01% of Novagas directly, and a further 19.55% through NOVA's investment in NGC.

FOOTHILLS PIPE LINES

This company, one of the leading transporters of natural gas to the United States, is 50% NOVA-owned. Westcoast Energy owns the remainder. Foothills shipped 844 billion cubic feet of gas in 1994.

ASSETS

(millions of dollars)	1994	1993	1992
Petrochemicals	$ 2,910	$ 2,696	$ 2,373
Natural gas services			
NOVA Gas Transmission	4,493	3,777	3,374
North American	616	333	307
International	200	98	109
Other	38	19	26
	$ 8,257	$ 6,923	$ 6,189

to our shareholders

The year 1994 was a very good one for NOVA and 1995 is shaping up to be even better. Our natural gas services businesses continue their rapid growth. The recovery in chemical industry margins is delivering substantial rewards, helped by the major steps we've taken to strengthen our businesses.

The long period of low margins in most petrochemicals sharply curtailed industry capacity additions over the last five years – to the point where current facilities are hard-pressed to match demand. It now appears that the chemical industry's operating rates and margins may remain at improved levels for a number of years.

We expect continued growth in natural gas production from the Western Canada Sedimentary Basin. This growth will require continued substantial expansion of our gas transmission facilities and will create midstream investment and marketing opportunities.

In 1992 and 1993, we forged a new strategic plan for NOVA. Our execution of this strategy continues to unfold.

We are focusing all of our resources in two broad business sectors – natural gas services and petrochemicals. Within those sectors we are limiting our activities to businesses where we can be the best. We are concentrating on businesses of substantial size that offer good growth potential.

NOVA's gas pipeline exemplifies this approach. It is one of the few rapidly growing utilities in North America. We have invested, on average, more than $600 million per year in new pipeline facilities over the last three years. We expect to invest at even higher levels for at least the next two years. In response to the wishes of our customers, we reorganized this business into a stand-alone corporation in 1994.

We made a significant step forward in the North American natural gas services industry through our investment in Houston-based Natural Gas

Clearinghouse. Several complementary gas services investment initiatives have followed in Canada and the United States.

Our international gas services business is now focused on pipeline and gas services investment opportunities and consulting. Gas marketing opportunities are expected to follow. We are making solid progress in an intensely competitive environment.

From left to right: Jeffrey M. Lipton, President; J.E. (Ted) Newall, Vice Chairman and Chief Executive Officer; and Richard F. Haskayne, Chairman.

In petrochemicals, we see excellent growth potential in ethylene-based derivatives and in styrenics. Our investment in Methanex Corporation has very much strengthened our position in the methanol business.

We are delivering low-cost excellence and high productivity growth in all areas of NOVA.

Today, each of our petrochemical operations is either in a cost leadership position or is close to achieving parity with the industry leaders. We have made very substantial progress in this area over the past three years. Our aim is to be the lowest-cost producer of every product we make.

In the recent past, we have enhanced the cost and productivity performance of our petrochemicals business through a series of low-capital-cost and low-operating-cost facility expansions. These substantial capacity additions were carried out during recent industry doldrums and are now delivering significant results as chemical prices recover.

A series of major initiatives to simplify and strengthen business processes across NOVA is well under way.

Our objective is to achieve a substantial improvement in the way we serve our customers and to rigorously root out low-value-added work and associated costs. We intend to sustain a vigorous attack on costs – regardless of the benevolence or hostility of the external business environment. We are determined to deliver excellent returns to our shareholders during all phases of the business cycle.

We hold our senior management team accountable for developing powerful business strategies. But we also recognize that the most difficult part is outstanding implementation of those strategies. We have concluded that many companies have clear strategies but that few have outstanding operational capabilities.

In response to this profound challenge, we are starting our fourth year of corporate-wide efforts focused on the following fundamentals of operating excellence:

→ exceeding customer expectations;
→ creating people leadership practices that set the pace for industry;
→ delivering low-cost excellence and high productivity growth everywhere;
→ identifying and adopting best practices employed by others; and
→ implementing these initiatives vigorously across all of NOVA.

This powerful drive for NOVA-wide operating excellence is delivering results, including:

→ better service to customers;
→ better leadership of our employees;
→ improved environment, health and safety management systems; and
→ higher credibility with each of NOVA's important constituencies.

It is our objective to deliver a total return to shareholders in the top quartile of the Toronto Stock Exchange 300 in every five-year period. Total return equals appreciation in share value, assuming reinvestment of dividends. It is a great pleasure for us to note that NOVA delivered a one-year total return of 42% in 1994, which was the best total return among the TSE 35. However, our total return for the five-year period ending in 1994 was in the top half of the TSE 300, not in the top quartile.

In 1994, we strengthened NOVA's balance sheet.

At year-end, our non-cost-of-service balance sheet was capitalized with only 31% debt, down from 50% at year-end 1993. The substantial growth of our gas pipeline and the capital required to fund recent strategic acquisitions was met in part through the issue of some $525 million of new equity in 1994. For 1995, funds from operations should be sufficient to finance our new equity contribution to the Alberta pipeline and capital expenditures in our non-regulated businesses.

We would like to pay special tribute to the NOVA team of employees. The past three years have been a period of radical change, delivering a fundamental and lasting strengthening of NOVA. In a climate of uncertainty and high stress, the NOVA team committed substantial extra effort to produce the results which are now emerging. The reorganization of our businesses has led to a number of highly valued people leaving the company, many through retirement. We would like to thank all our employees – past and present – for their outstanding service to NOVA.

Looking ahead, we expect rapid growth to continue in our natural gas pipeline system. North American and international gas services will continue to grow and should make a significant financial contribution to NOVA in three to four years' time. The chemical business is expected to sustain high margins throughout 1995. Our increased production capacity is well-timed. The outlook for NOVA in 1995 and beyond is very promising.

R. F. Haskayne
Richard F. Haskayne
Chairman

J. E. Newall
J.E. (Ted) Newall, O.C.
Vice Chairman
and Chief Executive Officer

J. M. Lipton
Jeffrey M. Lipton
President

outlook

Nineteen-ninety-five is shaping up to be another good year for NOVA. The most significant threat to NOVA's near-term earnings would come from a sharp setback in the North American economy, since chemical industry demand varies directly with economic activity. Our natural gas services business is expected to continue its rapid growth but its longer-term prospects are also linked to North America's economic vitality. In this regard, the majority of economic observers forecast continued solid growth in the North American economy for 1995, and probably 1996 as well. Assuming that is the case, NOVA should deliver excellent results. Following are more specific outlooks for each of NOVA's major business areas.

* This management discussion and analysis should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 1994.

OUTLOOK: NOVA GAS TRANSMISSION LTD.

Our Alberta gas pipeline, owned and operated by NOVA Gas Transmission Ltd. (NOVA Gas Transmission or NGTL), is well-positioned to benefit from the expected high level of natural gas exploration and production activity in the Western Canada Sedimentary Basin. Natural gas production is expected to continue to grow, requiring further substantial expansion of our transportation system.

NOVA Gas Transmission plans to invest some $760 million in new facilities in 1995, with a particular emphasis on reaching new production areas in northern Alberta. This investment should see our average investment base grow from $3.9 billion in 1994 to roughly $4.7 billion in 1995.

NOVA Gas Transmission moves to a traditional regulatory footing in 1995, with its rates and terms of service reviewed in a manner similar to that of other regulated companies in Alberta. NOVA Gas Transmission has filed an application for its 1995 rates and terms of service, including a 13% after-tax return on an actual common equity component averaging 32.8%. This application will be reviewed by the provincial regulator later in 1995.

Implementation of our ambitious business transformation program will be a major challenge in 1995. We invested considerable effort in 1994 to organize this business around a redesigned and simplified set of processes that maximize added value for our customers. The design of the new organization is well-advanced. Our objective is to implement the change in a way that enhances customer benefits while streamlining every business process. The major benefits of business transformation will be to dramatically improve the speed with which customers can access our pipeline system, make our customer relations a model of simplicity, and at the same time, maintain the superb reliability and cost-effectiveness of our system.

We will continue to work with Alberta gas producers and marketers to develop mutually beneficial strategies in response to changing natural gas prices. Our collective aim is to make the Western Canada Sedimentary Basin the gas supply basin of choice in North America.

Bruce W. Simpson
President
NOVA Gas
Transmission Ltd.

C. Kent Jespersen
President
Novacorp
International Inc.

OUTLOOK: NORTH AMERICAN AND INTERNATIONAL GAS SERVICES

Our North American and international gas services activities are comparatively small but rapidly-growing businesses. While their impact on earnings will continue to be relatively modest for the next year or two, our goal is to grow these businesses – and their earnings – substantially in the next three to four years.

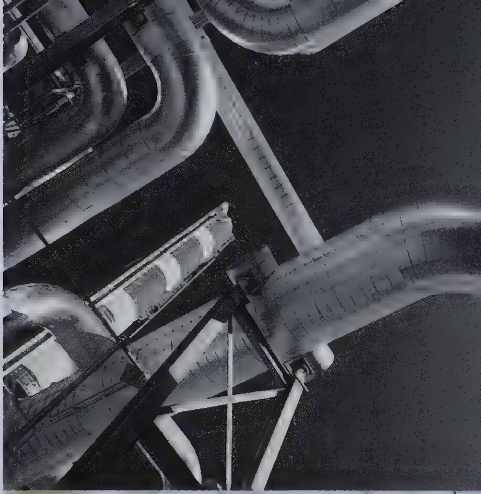
NOVA's Houston-based affiliate – Natural Gas Clearinghouse (NGC) – will undergo a fundamental change in 1995. Subject to shareholder approval, NGC will combine its operations with Trident NGL Holding, Inc., a major, fully integrated U.S. natural gas liquids company. The new business entity – to be called NGC Corporation – will be a leading gatherer, processor, transporter and marketer of energy products and services in North America. The new entity will have combined assets of roughly U.S. $1.5 billion.

In Canada, we plan to continue to build the Novagas Clearinghouse Limited Partnership (Novagas) as a comprehensive, competitive gas services business. The partnership made excellent progress on the gas marketing side of its business in 1994 and enters 1995 with good momentum. Novagas also plans to expand its gas gathering and processing asset base in 1995, through the construction of new facilities and selective purchases of existing facilities.

Pan-Alberta Gas will continue to redefine its strategy and business processes, with a focus on enhancing service for high-value markets and customers. In early 1995, Canada's National Energy Board approved an application by an affiliate of Foothills Pipe Lines to construct the 134-mile Wild Horse section of the proposed Altamont pipeline. Among the conditions of the approval is a requirement that 15-year gas transportation contracts be in place prior to construction.

In the international arena, we will work to build upon our recent pipeline investments in Argentina and Australia. In Argentina, we are part of the GasAndes consortium. GasAndes is one of two competing proposals to deliver Argentine gas to Chile. We have confidence in this project and are working hard to bring it to fruition in 1995. We will also investigate complementary investment opportunities arising from our recent purchase of an interest in an Australian natural gas pipeline.

NOVA has more than 20 years' experience providing natural gas engineering and consulting expertise, carrying out more than 300 projects in more than 50 countries. We now focus our consulting activities in areas with the prospect of future investments. In 1995, we will continue important consulting contracts in Malaysia, Mexico, Pakistan, Argentina and Chile.



OUTLOOK: PETROCHEMICALS

Modest levels of investment in new plants around the world in recent years have combined with economic growth to create conditions of high utilization of capacity for most petrochemical facilities. In the ethylene-polyethylene chain, several of NOVA's competitors experienced plant failures in 1994. This further tightened the balance between supply and demand. This tighter balance arrived sooner than most industry experts, including NOVA, had predicted.

In most products, we expect growth in consumption to exceed or keep pace with growth in capacity at least through 1995. In addition, our recent actions to significantly reduce our cost structure should begin to improve our results in the last half of 1995 and be fully realized in 1996.

We see 1995 as a year in which we should reap the benefits of recent capacity increases and acquisitions. To maximize those benefits, we plan to focus on excellent operation of our facilities in order to augment throughput rates.

In 1995, we will also work to develop our technological edge. In Sarnia, Ontario, we recently broke ground on a pilot plant to test and develop the next generation of SCLAIRTECH polyethylene technologies.

Our petrochemicals business is implementing a widespread business simplification and re-engineering program in 1995. Our objective is to create a low-cost, customer-oriented business that can deliver the best operating results in the industry, especially at the bottom of the cycle.

The petrochemicals industry enters 1995 with a fundamentally favorable commodity price environment. NOVA's operating strengths demonstrated in 1994 should continue into 1995. Our feedstock price advantages should also continue.

NOVA's affiliate, Methanex Corporation (Methanex, 24% NOVA-owned) expects to invest U.S. $275 million during 1995 and 1996 to more than double methanol production at its Cabo Negro, Chile facility. This expansion, together with a U.S. $45 million expansion planned for Methanex's Motunui, New Zealand facility, will lift 1996 methanol production capacity to roughly 2 billion U.S. gallons. Production in 1994 was 1.2 billion U.S. gallons. Methanex is by far the largest producer and marketer of methanol in the world. These expansions will add to existing economies of scale and will enhance Methanex's position as a low-cost supplier.

Dan W. Boivin
President
Novacor Chemicals Ltd.

investment activity

NOVA NARROWS ITS FOCUS AND GROWS ITS GLOBAL PRESENCE

During 1994, NOVA invested in its core businesses and sold non-core businesses. A summary of this activity is provided below.

MONTH	BUSINESS	TRANSACTION	$ MILLIONS
January	Petrochemicals	Sold Novalta Resources Inc. (Novalta), an oil and gas exploration and development company.	265
	North American Gas Services	Sold the 50% partnership interest in TQM Pipeline Partnership, a natural gas pipeline in Quebec.	52
	North American Gas Services	Bought a 36.5% interest in Natural Gas Clearinghouse (NGC), a U.S. gas services business with investments in gas marketing, gathering and processing facilities. Later increased ownership to 39.1%.	246
	Petrochemicals	Bought an additional 15% interest in Methanex Corporation, bringing NOVA's total ownership in Methanex to 24%.	223(1)
February	North American Gas Services	NOVA and NGC formed Novagas Clearinghouse Limited Partnership (Novagas), a Canadian natural gas services enterprise.	9
March	North American Gas Services	Bought the remaining 49.995% interest in Pan-Alberta Gas Ltd., a natural gas marketer, bringing NOVA's ownership to 100%.	19
June	Petrochemicals	Purchased DuPont Canada Inc.'s Canadian polyethylene business, including a 500-million-pound-per-year polyethylene facility near Sarnia, Ontario as well as the SCLAIRTECH technology and worldwide licencing business.	45
	International Gas Services	Together with Petroliam Nasional Berhad, acquired a 49% interest in the Moomba-Sydney pipeline, an 800-mile natural gas pipeline in Australia. NOVA's interest in the pipeline is 25%.	72
September	International Gas Services	Increased ownership in GasInvest S.A. to 20.6%. GasInvest owns 70% of the northern segment of Argentina's natural gas pipeline system (TGN).	20
October	North American Gas Services	NGC and Trident NGL Holding, Inc. (Trident), of Texas agreed to combine their gas services businesses.(2)	–
	Petrochemicals	Completed debottlenecking of three polyethylene facilities, adding 295 million pounds of capacity.	19
January to December	NOVA Gas Transmission	Completed first year of a three-year, estimated $2.3 billion Alberta gas pipeline expansion program.	826

(1) Includes the exchange of NOVA's methanol assets.
(2) The transaction is expected to close in early 1995, subject to Trident shareholder approval. NOVA will contribute about $95 million in cash and will have approximately a 34% interest in the combined company which will be called NGC Corporation.

earnings performance

CONTRIBUTION TO NET INCOME

(millions of dollars)	1994	1993	1992
Natural gas services	$ 172	$ 153	$ 155
Petrochemicals			
Petrochemical operations	158	14	2
Equity in earnings of Methanex	134	–	–
Gain on sale of Novalta	120	–	–
	412	14	2
Corporate(1)	(9)	24	(5)
	$ 575	$ 191	$ 152
Net income per share (fully diluted)	$ 1.20	$ 0.47	$ 0.39

(1) 1993 includes a $25 million after-tax gain on the sale of Grove Italia S.p.A.

NET INCOME CONTRIBUTION
($ millions)

NOVA Sets Net Income Record in 1994

NOVA's 1994 earnings of $575 million are its highest ever. The previous record of $374 million was set in 1988.

The 1994 results are three times 1993 net income of $191 million. The improvement is largely the result of three factors:

→ rising petrochemical prices;
→ timely investments in polyethylene, ethylene and methanol; and
→ a $120 million after-tax gain on the sale of Novalta.

Excluding after-tax gains on the sale of investments, 1994 income is $455 million, up $289 million from 1993.

For a more in-depth explanation of the increase in net income and net income per share, refer to page 14. Also, refer to the gas services and petrochemical business reviews starting on page 17.

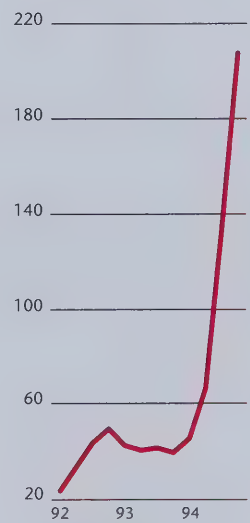
Prior Year Was Profitable Despite Tough Market Conditions

Net income in 1993 was $191 million compared with 1992 net income of $152 million. The improved earnings were largely the result of:

→ a $25 million gain on the sale of an investment in Grove Italia S.p.A. (Grove), a valve manufacturer; and
→ reduced non-cost-of-service interest expense of $19 million as a result of lower debt levels.

Excluding the gain on the sale of Grove, 1993 income was $166 million, up $14 million or 9% compared with 1992.

NET INCOME PER QUARTER(1)
($ millions)



(1) Excludes gains on sales of investments

CHANGES IN NET INCOME PER SHARE AND NET INCOME: BETTER (WORSE)

	1994 compared with 1993	1993 compared with 1992	1994 compared with 1993	1993 compared with 1992
	(cents per share)		(millions of dollars)	
Natural gas services[1]				
Increase in NOVA Gas Transmission investment base	4 cents	3 cents	$ 16	$ 11
Decrease in NOVA Gas Transmission after-tax return on common equity	–	(2)	–	(8)
Increase (decrease) in NOVA Gas Transmission common equity per cent of capital structure	2	(2)	9	(8)
Increase (decrease) in North American gas services contribution	1	(1)	4	(3)
Increase (decrease) in international gas services contribution	(1)	2	(3)	6
Other	(1)	–	(7)	–
	5	–	19	(2)
Petrochemicals				
Reduced interest expense	–	5	–	19
Higher product margins	44	2	182	9
Higher product volumes	5	1	20	3
Equity in earnings of Methanex	33	–	134	–
Discontinued businesses	(4)	–	(17)	–
Re-engineering costs	(6)	–	(24)	–
Higher operating costs and other	(4)	(5)	(17)	(19)
	68	3	278	12
Gain on sale of Novalta	30	–	120	–
	98	3	398	12
Corporate and other				
Gain on sale of assets	(6)	7	(25)	29
Other	(2)	–	(8)	–
	(8)	7	(33)	29
Increase in net income	95	10	$ 384	$ 39
Increase in average number of shares outstanding	(17)	(2)		
Dilutive factors[2]	(5)	–		
Increase in net income per share (fully diluted)[3]	73 cents	8 cents		

(1) Includes NOVA Gas Transmission and the North American and international gas services businesses.
(2) The per share effect of having dilutive options and warrants increases as the amount of net income increases.
(3) Fully diluted earnings per share (1994 – $1.20 per share, 484 million shares; 1993 – $0.47 per share, 432 million shares; 1992 – $0.39 per share, 413 million shares).

factors affecting earnings

FACTORS AFFECTING NOVA's NET INCOME PER SHARE[1] IN 1995

Assumptions[2]	Estimated annual EPS increase (decrease)[1]	Assumed third party sales
Petrochemicals[3]		
Increase in profit margin of U.S. 1¢ per pound		
Polyethylene	4.5 cents	2.4 billion lbs
Styrene	0.5 cents	0.2 billion lbs
Polystyrene	1.6 cents	0.8 billion lbs
Propylene	1.5 cents	0.7 billion lbs
Polypropylene	0.2 cents	0.1 billion lbs
NOVA Gas Transmission		
Increase of $100 million in the average investment base	0.8 cents	
Increase of 1% in approved after-tax return on common equity	3.2 cents	
Increase of 1% in approved common equity per cent of capital structure	0.9 cents	
Increase in Canadian dollar by U.S. 1¢	(2.3) cents	
Increase in interest rates by 1%	(0.8) cents	

(1) Estimated annual change on fully diluted net income per share (EPS) based on 484 million shares. Assumes U.S. $1 = $1.40 Canadian.

(2) A decrease in these factors will have the opposite effect on net income per share.

(3) A U.S. $10 million increase in Methanex's net income will result in an estimated 0.7 cent increase in NOVA's net income per share.

PETROCHEMICAL MARGINS

Generally, changes in petrochemical margins are caused by a change in the relationship between product supply and demand. Oversupply often drives prices down to the level of cash costs. Margins widen rapidly when capacity utilization is as high as it was at the end of 1994.

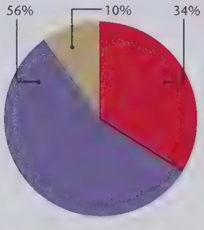
Since polyethylene is NOVA's primary polymer product, changes in the margin earned on polyethylene have a large impact on NOVA's earnings. NOVA is also significantly affected by changes in the margin earned on methanol through its investment in Methanex. NOVA and Methanex sell their products in highly competitive global markets. Changes in world supply and demand conditions can cause prices to fluctuate significantly.

AVERAGE BENCHMARK PRICES ON THE U.S. GULF COAST

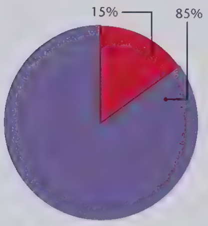
($U.S. per pound except methanol)	January 1995	4Q 1994	3Q 1994	For the year 1994	For the year 1993
Polyethylene (linear low-density)	$ 0.49	$ 0.42	$ 0.34	$ 0.33	$0.29
Methanol ($U.S. per U.S. gallon)	1.55	1.45	1.01	0.92	0.47
Styrene	0.43	0.41	0.35	0.33	0.24
Polystyrene	0.56	0.54	0.46	0.46	0.41
Propylene	0.22	0.20	0.17	0.16	0.14
Polypropylene	0.45	0.39	0.34	0.33	0.28

GEOGRAPHIC DISTRIBUTION OF SALES
(%)

POLYETHYLENE



POLYSTYRENE



■ Canada
■ United States
■ Asia-Pacific and other

THE EFFECT OF THE U.S. DOLLAR EXCHANGE RATE

NOVA's and Methanex's major markets are in the United States, Canada, Europe and the Asia-Pacific region. Selling prices for most petrochemical products are established in U.S. dollars. Even when prices are quoted in Canadian dollars or some other currency, they will typically change with U.S. dollar product prices established on the U.S. Gulf Coast. On the other hand, a significant portion of NOVA's petrochemical production costs is established in Canadian dollars. This relationship – where revenues fluctuate with changes in the U.S. dollar and a significant portion of production costs is established in Canadian dollars – means that NOVA's earnings increase with a lower-valued Canadian dollar and decrease with a higher-valued Canadian dollar. NOVA hedges a portion of this currency risk (see Risk Management, page 28).

SENSITIVITY TO PETROCHEMICAL FEEDSTOCK COSTS

NOVA uses approximately 53 billion cubic feet of natural gas and 25 million barrels of crude oil, natural gas liquids and condensates per year in the production of its olefins, polyolefins and styrenics products. The mix of crude oil, condensates and natural gas liquids is optimized based on two factors:

→ the relative cost of the feedstock products; and
→ the relative revenue that can be earned by selling the by-products that are created in the production of ethylene.

NOVA makes limited use of short-term fixed price contracts and commodities futures contracts to reduce the risk of fluctuating feedstock prices (see Risk Management, page 28).

FACTORS INFLUENCING NGTL's CONTRIBUTION

As a regulated pipeline, NOVA Gas Transmission's contribution is affected by changes to the investment base, primarily as a result of capital expenditures. Net income is also affected by changes in the regulated common equity component of the pipeline's capital structure and the regulated after-tax return collected on that component. The after-tax return is set by the regulator to produce an equity-risk premium to the long-term yield of Canadian bonds.

gas services review

NOVA is committed to pursuing future growth opportunities in the full spectrum of natural gas services including natural gas gathering, transmission, processing, storage and marketing. NOVA's natural gas service activities are discussed in three segments: NOVA Gas Transmission, North American gas services and international gas services.

NATURAL GAS SERVICES HIGHLIGHTS

(millions of dollars)	1994	1993	1992
Revenue	$ 1,073	$ 966	$ 877
Operating income	$ 426	$ 405	$ 406
Depreciation	$ 169	$ 156	$ 141
Capital expenditures[1]	$ 834	$ 523	$ 451
Assets	$ 5,309	$ 4,208	$ 3,790
Net income contribution[2]			
NOVA Gas Transmission	$ 143	$ 125	$ 130
North American gas services	22	18	21
International gas services	7	10	4
	$ 172	$ 153	$ 155

(1) Net of retirements and intrasegment transfers.
(2) 1993 and 1992 figures have been restated to conform with 1994 presentation.

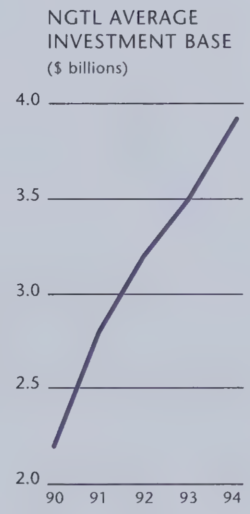
NOVA GAS TRANSMISSION LTD.

NOVA Gas Transmission owns and operates an Alberta-based regulated pipeline business for the transportation of natural gas. The pipeline system transports natural gas for use within Alberta and to provincial borders for connection with pipelines serving Canadian and United States markets. The pipeline system moves about 80% of Canadian marketed natural gas production and about 15% of the natural gas produced annually in North America.

NOVA GAS TRANSMISSION HIGHLIGHTS

(millions of dollars, except percentages and volumes)	1994	1993	1992
Net income contribution	$ 143	$ 125	$ 130
Capital expenditures[1]	$ 826	$ 522	$ 465
Depreciation	$ 167	$ 154	$ 139
Average investment base[2]	$ 3,951	$ 3,512	$ 3,174
Total delivered gas volumes[3]	4,089	3,768	3,406
Common equity per cent of capital structure[4]	32%	30%	32%
After-tax return on common equity[4]	11.75%	11.75%	12.50%

(1) Net of retirements.
(2) Includes facilities in service and under construction.
(3) Billion cubic feet.
(4) Approved by regulator for purposes of determining annual tolls.



Now a Separate Company

In May 1994, NOVA completed a corporate reorganization which resulted in its regulated Alberta natural gas pipeline business, previously a division, becoming a stand-alone company known as NOVA Gas Transmission Ltd. The reorganization was done in response to requests from natural gas producer groups in Alberta.

NOVA Gas
Transmission
Earnings Formula

investment base

x

the approved
common equity
per cent

x

the after-tax
rate of return
on common equity

=

net income

Cost-of-service Tolling System

In 1994 and years prior, customers transporting natural gas on the pipeline system paid a toll which was based on the actual costs incurred by NOVA Gas Transmission to provide gas transportation services. This cost-of-service tolling system provided for the recovery of all reasonable and necessary costs incurred in providing gas transportation service, including interest on debt, plus a specified after-tax return on the common equity component of NOVA Gas Transmission's capital structure. This tolling system was subject to review by the Public Utilities Board of Alberta (PUB).

The PUB set NOVA Gas Transmission's 1994 common equity component of the capital structure at 32%, up from 30% in 1993. The PUB also set the after-tax rate of return on this common equity component at 11.75%, unchanged from 1993. The increase in the common equity component, coupled with growth in the investment base as a result of pipeline expansion, increased NOVA Gas Transmission's net income contribution to $143 million in 1994, up from $125 million in 1993.

New Tolling System in 1995

Beginning in 1995, NOVA Gas Transmission will be regulated under the Gas Utilities Act (Alberta) in a manner similar to other regulated Canadian pipeline companies. The new tolling system will not be based on the recovery of actual costs incurred. Instead, it will be based on budgeted costs approved by the regulator. NOVA believes this new tolling system will not have a material effect on the future income contribution from the pipeline.

Business Simplification Review

NOVA Gas Transmission conducted a year-long review of its pipeline operations and processes during 1994. The objective of this review was to simplify and focus business processes to create a business which is more customer-focused. Implementation of the recommendations from this review is now under way.

NORTH AMERICAN GAS SERVICES EXPANDS

The past year was one of significant growth in NOVA's gas services activities in North America (see page 12). NOVA's current activities include interests in the following regulated and non-regulated gas services companies.

Foothills Pipe Lines Ltd.: A major transporter of gas to the U.S. (50% owned)

Foothills Pipe Lines Ltd. (Foothills) is a cost-of-service business regulated by the National Energy Board of Canada. At $18 million, Foothills' 1994 net income contribution is relatively unchanged from the level of the past three years. The consistency of earnings is a result of modest growth in the rate base, offset by changes to Foothills' after-tax return. NOVA's share of Foothills' 1994 average rate base was $346 million (1993 – $329 million, 1992 – $299 million). During 1994, Foothills' average after-tax rate of return was 11.50% (1993 – 11.83%, 1992 – 13.82%) on a 28% common equity component (1993 – 27.4%, 1992 – 27.3%).

Pan-Alberta Gas Ltd.: A leading natural gas marketer (100% owned)

Pan-Alberta markets natural gas from Alberta and British Columbia to markets primarily outside Alberta. On March 24, 1994, NOVA acquired the remaining outside interest in Pan-Alberta, making it a wholly owned company.

Natural Gas Clearinghouse: A natural gas gathering, processing and marketing business (39.1% owned)

NOVA completed the purchase of a 36.5% interest in Houston-based NGC on January 11, 1994. This was increased to 39.1% during the third quarter. In October 1994, NGC signed an agreement to combine with Trident, a fully integrated natural gas liquids company in the United States. The combination is expected to close in early 1995 subject to Trident shareholder approval. NOVA will contribute about $95 million in cash and will own about 34% of the combined entity. NGC contributed $9 million to NOVA's 1994 net income.

Novagas Clearinghouse Limited Partnership: A Canadian natural gas services partnership (50.01% direct ownership; 69.56% beneficial ownership)

Novagas is owned jointly with NGC. Novagas was created to pursue natural gas services opportunities in Canada. In its first year of operations, Novagas purchased Great West Energy Ltd., a gas marketing company; announced plans to build a $13.6 million pipeline; opened a 15 million cubic feet per day gas processing facility; and announced plans to build another processing facility with a capacity of 40 million cubic feet per day. Novagas contributed $2 million to NOVA's 1994 net income through NOVA's direct ownership interest.

TQM Pipeline Partnership: Sold 50% partnership interest in 1994

Effective January 1, 1994, NOVA sold its 50% partnership interest in this Quebec-based pipeline for about $52 million. No after-tax gain or loss arose on the transaction.

INTERNATIONAL GAS SERVICES

The international gas services business leverages the expertise NOVA has developed through constructing and operating its Alberta-based pipeline and gas services investments in North America. NOVA's most significant international activities are in Argentina, Malaysia and Australia. International gas services contributed $7 million to net income in 1994 compared with $10 million in 1993 and $4 million in 1992. The decrease in earnings from 1993 to 1994 is due to increased business development costs incurred seeking investment opportunities. The decline is partially offset by higher income from investments of about $5 million.

petrochemicals review

PETROCHEMICALS HIGHLIGHTS

(millions of dollars)	1994	1993	1992
Revenue			
Olefins and polyolefins	$ 2,596	$ 1,972	$ 1,963
Styrenics	554	584	428
Methanol(1)	18	232	196
Intrasegment eliminations	(517)	(480)	(437)
	$ 2,651	$ 2,308	$ 2,150
Operating income (loss)			
Olefins and polyolefins	$ 311	$ 75	$ 136
Styrenics	24	(22)	(52)
Methanol(1)	1	26	17
Re-engineering and other(2)	(38)	–	–
	$ 298	$ 79	$ 101
Equity in earnings of affiliates			
Methanex(1)	$ 134	$ –	$ –
Others	20	20	17
	$ 154	$ 20	$ 17
Depreciation	$ 175	$ 168	$ 148
Capital expenditures	$ 204	$ 262	$ 79
Assets	$ 2,910	$ 2,696	$ 2,373
Net income contribution			
Operations	$ 292	$ 14	$ 2
Gain on sale of Novalta	120	–	–
	$ 412	$ 14	$ 2

(1) In January 1994, NOVA exchanged its methanol facilities for shares in Methanex.

(2) See page 24 for an explanation of targeted benefits from re-engineering.

The net income contribution from petrochemical operations increased significantly in 1994 to $412 million compared with $14 million in 1993. The main reasons for the improvement are higher earnings from the olefins and polyolefins business and from NOVA's investment in Methanex. Earnings were also enhanced by a $120 million after-tax gain on the sale of Novalta in January 1994. After a strategic review of its businesses in 1993, NOVA concluded that oil and gas exploration and development was not part of its core businesses and that the value of high natural gas price expectations during 1993 could be best captured by selling Novalta. A lower-valued Canadian dollar also contributed to the increased petrochemical earnings.

PRICE INCREASES BOOST OLEFINS AND POLYOLEFINS RESULTS

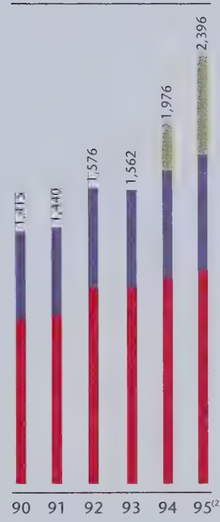
NOVA's olefins and polyolefins operations include the production of ethylene; linear low-density, low-density, and high-density polyethylene; propylene and polypropylene. The olefins and polyolefins business had a very good year with operating income increasing to $311 million from $75 million in 1993 and $136 million in 1992. The main reason for the improvement was higher margins earned on polyethylene products as a result of industry-wide price increases.

PRODUCTION

(millions of pounds, except methanol)	1994	1993	1992
Ethylene	4,699	4,529	4,576
Polyethylene(1)			
Linear low-density	1,241	1,009	1,008
Low-density	512	222	204
High-density	223	331	364
Styrene	900	742	566
Polystyrene	675	617	641
Propylene	627	675	706
Polypropylene	141	120	116
Methanol (millions of U.S. gallons)(2)	–	301	282

(1) 1994 includes six months of production from the St. Clair facility.
(2) In January 1994, NOVA exchanged its methanol facilities for shares in Methanex.

POLYETHYLENE PRODUCTION
(million lbs)



St. Clair(1)
Moore Township
Joffre

(1) The St. Clair facility was acquired on June 30, 1994 and therefore 1994 reflects only six months of production.
(2) Rated production capacity at the start of 1995.

NOVA Insulated from Market Price Increases for Ethylene

All of NOVA's ethylene feedstock requirements are met from production at its Joffre, Alberta and Corunna, Ontario facilities. At Joffre, ethylene is produced from natural-gas-based ethane. At Corunna, ethylene is derived from liquid hydrocarbons (crude oil, natural gas liquids and condensates).

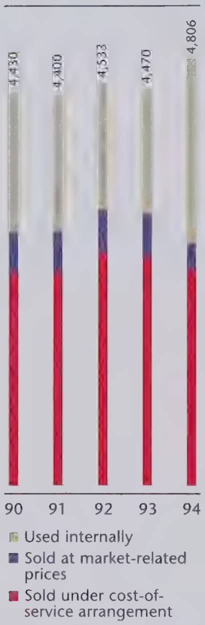
Joffre and Corunna contribute about equally toward meeting NOVA's ethylene feedstock requirements. By having its ethylene feedstock requirements met through internal production, NOVA is insulated from U.S. Gulf Coast ethylene price changes. Prices increased from an average of U.S. $0.21 per pound in the first quarter of 1994 to U.S. $0.26 in the fourth quarter. U.S. Gulf Coast prices were forced up as industry ethylene inventories reached a record low. Low inventories were caused by increased product demand and industry operating problems.

Ethylene Production

With two ethylene plants, NOVA's Joffre facility is the second-largest ethylene production facility in North America. The two Joffre plants produced a total of about 3.5 billion pounds of ethylene in 1994. The plants are supported by NOVA's ethane extraction, gathering and storage system and benefit from North America's lowest-cost natural-gas-based ethane supply. These factors combine to rank the Joffre facility among the world's lowest-cost production facilities. About 2.2 billion pounds of Joffre's ethylene production are sold to third parties under cost-of-service contracts that are due to expire at the end of 1998 and 2004.

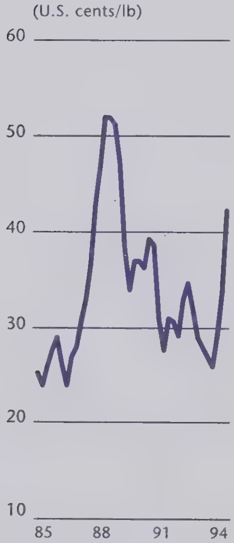
The Corunna plant produced about 1.2 billion pounds of ethylene in 1994. Production from the plant is expected to be higher in 1995 as the facility was shut down for about one month in 1994 for standard maintenance and debottlenecking. Corunna operates with a flexi-cracker which can optimize its use of feedstocks based on their relative costs and by-product revenue. Corunna also ranks among the lowest-cost producers of ethylene in North

ETHYLENE UTILIZATION[1]
(million lbs)



(1) Current production net of changes in inventory levels

POLYETHYLENE LINEAR LOW-DENSITY PRICES[1]
(U.S. cents/lb)



(1) Average benchmark prices on the U.S. Gulf Coast

America. All of the ethylene produced from this plant is used by NOVA for the production of polyethylene and styrene products. By-products from the ethylene production process are sold at market prices.

Polyethylene Prices Increase

Polyethylene is produced from ethylene and is used in construction and packaging materials. The margin earned on polyethylene prices is the largest factor affecting NOVA's earnings (see page 15). About 56% of NOVA's polyethylene sales are made to the United States market and about 10% of sales are to markets outside of North America.

During 1994, polyethylene prices on the U.S. Gulf Coast increased from an average of U.S. $0.26 per pound during the first quarter to U.S. $0.42 during the fourth quarter. This increase is attributable to three factors. First, demand for this product has been increasing as a result of growth in the world economy. Second, there have been supply constraints resulting from industry operating problems on the U.S. Gulf Coast. Third, prices have risen as a result of higher ethylene feedstock costs. With smooth plant operations all year, NOVA was able to take full advantage of polyethylene price increases.

Polyethylene Production Increases

NOVA is a significant producer and marketer of polyethylene in North America, as well as in offshore markets, with a production share in North America of approximately 7% at the end of 1994. NOVA produced about 2.0 billion pounds of polyethylene in 1994. As a result of debottlenecking efforts at the Joffre, Alberta, and Moore Township, Ontario facilities, and the acquisition of a facility at St. Clair River, Ontario, in late June 1994, NOVA's polyethylene production capacity is now about 2.4 billion pounds per year. This represents a 50% increase from 1993 levels. The Joffre site produces linear low-density polyethylene using a gas phase process. Production totalled 1.1 billion pounds in 1994. During 1994, NOVA added 200 million pounds per year of production capacity through debottlenecking efforts. Joffre's 1995 polyethylene production capacity is about 1.2 billion pounds per year.

The Moore Township site produces low- and high-density polyethylene using a gas phase process. Production totalled 611 million pounds in 1994. During 1994, 45 million pounds per year of production capacity was added through debottlenecking efforts. Moore Township's 1995 polyethylene production capacity is about 645 million pounds per year.

In late June 1994, NOVA acquired DuPont Canada Inc.'s 500 million pound per year solution-based polyethylene facility by the St. Clair River near Sarnia, and the SCLAIRTECH technology and worldwide licencing business. Production capacity at St. Clair was further expanded to 550 million pounds per year in September as a result of debottlenecking efforts. NOVA's six-month share of production from the St. Clair plant was 257 million pounds.

Propylene and Polypropylene

In addition to producing ethylene, the Corunna plant also produced 627 million pounds of propylene in 1994. About 79% of production was sold to third parties at market prices with the balance of production being used as a feedstock for NOVA's production of polypropylene. Polypropylene is produced at a NOVA plant in Marysville, Michigan with a capacity of about 140 million pounds per year.

1993 Compared with 1992

In 1993, operating income from the olefins and polyolefins business was down 45% or $61 million from 1992. This was largely the result of reduced margins in the polyethylene business. Excess supply during 1993 kept polyethylene prices low, squeezing margins.

STYRENICS OPERATION – PROFITABLE IN 1994

NOVA combines its styrene and polystyrene operations into one business unit referred to as styrenics. The styrenics operation returned to profitability in 1994. Operating income increased to $24 million from a loss of $22 million in 1993 and a loss of $52 million in 1992. The improved earnings are the result of higher styrene and polystyrene prices, lower costs and improved operations.

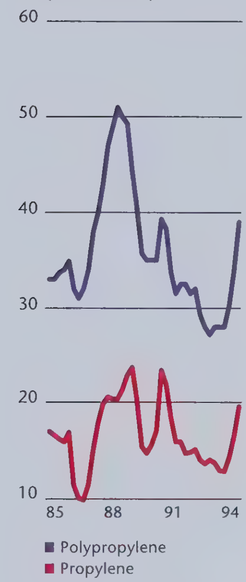
Styrene Supply

NOVA has about 1 billion pounds of annual styrene supply: 400 million from ARCO Chemical Company's Channelview, Texas facility and 600 million pounds from NOVA's plant in Sarnia, Ontario. More than half of the benzene feedstock and 100% of the ethylene feedstock for the Sarnia plant comes from NOVA's Corunna plant. About 60% of Sarnia's styrene production is used as feedstock for NOVA's polystyrene production. The remainder is sold on the merchant market.

Polystyrene Prices Increase

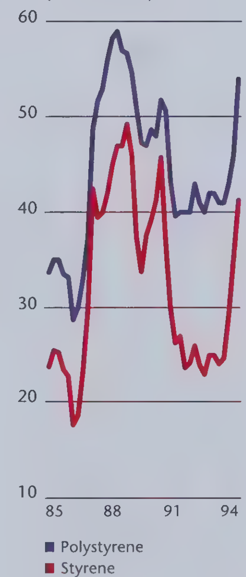
NOVA's polystyrene production capacity of about 760 million pounds per year represents approximately 13% of North American capacity (at the end of 1994). All of NOVA's polystyrene production is sold to third parties at market prices. About 85% of sales are to U.S. markets. Polystyrene prices increased from an average U.S. Gulf Coast benchmark price of U.S. $0.41 per pound in the first quarter of 1994 to U.S. $0.54 per pound in the fourth quarter. Prices have been rising in response to increased demand as a result of the growing world economy and styrene feedstock supply constraints in the United States resulting from a series of scheduled maintenance outages. In addition, the prolonged period of very poor styrene profit margins in prior years led to the closure of high-cost facilities and also limited new capacity additions below the growth in styrene consumption.

POLYPROPYLENE/ PROPYLENE PRICES[1]
(U.S. cents/lb)



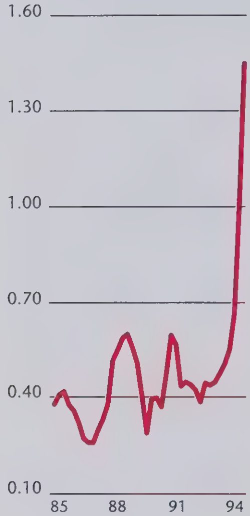
(1) Average benchmark prices on the U.S. Gulf Coast

POLYSTYRENE/ STYRENE PRICES[1]
(U.S. cents/lb)



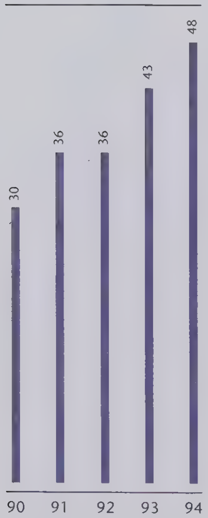
(1) Average benchmark prices on the U.S. Gulf Coast

METHANOL PRICES[1]
(U.S. $/U.S. gallon)



(1) Average benchmark prices on the U.S. Gulf Coast

PETROCHEMICALS RESEARCH AND DEVELOPMENT EXPENDITURES[1]
($ millions)



(1) Includes technical support for customers and product improvement expenditures

1993 Compared with 1992

Operating losses from the styrenics business decreased 58% or $30 million in 1993 compared with 1992. The improvement in 1993 was attributed to improved margins and reduced plant operating costs.

HIGH RETURNS FROM METHANEX

Through a series of transactions in December 1993 and January 1994, NOVA acquired a 24% interest in Methanex Corporation. As part of the transaction, NOVA exchanged its methanol assets, including its three production plants at Medicine Hat, Alberta. Earnings from NOVA's 24% investment in Methanex are included in equity in earnings of affiliates and were $134 million for 1994.

Methanol Price Increases

Methanol is a global commodity used in formaldehyde-based construction materials, reformulated gasoline and in the manufacture of acetic acid. Prices for methanol fluctuate significantly depending on world supply and demand. During 1994, U.S. Gulf Coast prices tripled, from a first quarter average price of U.S. $0.55 per gallon to about U.S. $1.45 per gallon in the fourth quarter. The strengthening methanol price is attributed to minimal growth in industry production capacity combined with strong growth in product demand. Demand for methanol has increased for two reasons. First, global economic recovery has caused growth in traditional methanol markets. Second, there has been a rapid increase in the use of methanol to produce oxygenates for reformulated gasoline as a result of U.S. clean air legislation.

Methanex Production Capacity

In October, Methanex announced plans to double capacity at its methanol plant in Chile. The 300 million U.S. gallons per year capacity expansion will cost about U.S. $275 million. Methanex is also planning to spend U.S. $45 million adding 230 million U.S. gallons per year of capacity at its Motunui, New Zealand plant, which is capable of producing either methanol or gasoline from natural gas. Combined, these two expansions would increase Methanex's annual methanol production capacity to about 2 billion U.S. gallons by late 1996, compared with 1994 year-end capacity of about 1.5 billion U.S. gallons.

RE-ENGINEERING FOR LOW-COST EXCELLENCE

NOVA's petrochemicals business began a thorough review of its operations and business processes starting with the styrenics business in 1993 and extending to the olefins and polyolefins operations in 1994. During 1995, the implementation phase of this re-engineering will largely be completed. NOVA is targeting total benefits of at least $130 million per year starting in the fourth quarter of 1995. Benefits will be realized through operating cost savings, sustaining capital cost reductions and margin improvements.

liquidity & capital

NON-COST-OF-SERVICE DEBT REDUCED TO 31%

December 31 (millions of dollars)	1994	%	1993	%	1992	%
Cost-of-service						
Long-term debt[1,2]	$ 3,248	67	$ 2,929	69	$ 2,607	68
Common equity	1,590	33	1,305	31	1,265	32
	$ 4,838		$ 4,234		$ 3,872	
Non-cost-of-service						
Short-term bank loans	$ 297	12	$ 403	21	$ 222	14
Long-term debt[1]	495	19	560	29	462	29
Common equity	1,751	69	970	50	907	57
	$ 2,543		$ 1,933		$ 1,591	
Consolidated						
Short-term bank loans	$ 297	4	$ 403	6	$ 222	4
Long-term debt[1,2]	3,743	51	3,489	57	3,069	56
Common equity	3,341	45	2,275	37	2,172	40
	$ 7,381		$ 6,167		$ 5,463	

(1) Includes current portion.

(2) Includes NOVA Gas Transmission's preferred shares (1994 – $100 million, 1993 – $176 million, 1992 – $182 million).

FUNDS FROM OPERATIONS STRENGTHENED TO $668 MILLION

Funds from operations of $668 million for 1994 were $218 million more than for 1993. The improvement is the result of a stronger contribution from the petrochemicals business. Funds from operations in 1993 were $11 million higher than 1992, primarily attributable to lower non-cost-of-service interest expense as a result of reduced average debt levels. In addition to increasing funds from operations, NOVA's liquidity is strengthened through the availability of credit facilities. At December 31, 1994, NOVA's unutilized contracted credit facilities were $650 million.

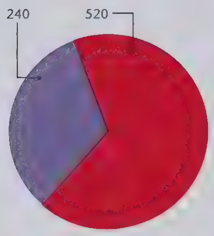
NEW EQUITY PROVIDES $525 MILLION

During 1994, NOVA raised $525 million by issuing 57 million common shares. In addition to shares issued for cash, NOVA issued 14 million shares on August 18, 1994, on conversion of all of its $150 million convertible debentures. The equity component of NOVA's non-cost-of-service capitalization has now been raised to 69%. For 1995, funds from operations should be sufficient to finance NOVA's equity contribution to the Alberta pipeline and capital expenditures in the non-regulated businesses. The total capital requirement for 1995 is expected to be about $400 million.

ASSET SALES PROVIDE $323 MILLION

During 1994, NOVA received $323 million from the sale of assets including Novalta and a 50% interest in the TQM Pipeline Partnership.

SOURCES OF FINANCING FOR NGTL's 1995 CAPITAL EXPENDITURES
($ millions)



■ New cost-of-service debt
■ Funds from operations and NOVA Corporation

NOVA Gas Transmission Credit Rating of Unsecured Debt Securities[1]

December 31, 1994

Canadian Bond Rating Service Inc.
A(Low)

Dominion Bond Rating Service Limited
A

Standard & Poor's Corporation
A-

Moody's Investors Service, Inc.
A3

(1) Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

EQUITY INVESTMENTS TOTAL $626 MILLION

During 1994, NOVA increased its global presence through the purchase of equity positions in several other entities. The two largest transactions involved the purchase of 39.1% of Natural Gas Clearinghouse and the completion of the purchase of 24% of Methanex Corporation. For a detailed listing of investment activities, see page 12.

CAPITAL EXPENDITURES REQUIRE $493 MILLION

Capital expenditures required NOVA to invest $493 million in 1994 compared with $446 million in 1993. Of this, $204 million was spent on petrochemical plants, including $45 million for the purchase of DuPont Canada Inc.'s polyethylene plant and technology. The remaining amount was spent on improving production capacity at several plants and on normal sustaining capital requirements. Fixed asset additions for the natural gas services businesses required $289 million. Of this, $281 million related to the Alberta pipeline and is net of $545 million provided by cost-of-service debt.

FINANCING EXPANSION OF THE NOVA GAS TRANSMISSION SYSTEM

As a regulated pipeline, NOVA Gas Transmission's capital expenditures form part of the investment base on which it collects an after-tax return. Over time, the cost of these capital expenditures is recovered from customers through the cost-of-service tolling process.

During 1994, NOVA Gas Transmission spent $826 million expanding the pipeline system. This was financed by cost-of-service debt, operating cash flows and by equity contributions from NOVA. The Alberta pipeline expansion program is expected to be about $760 million in 1995 and $700 million in 1996.

NOVA Gas Transmission's ability to obtain capital on the best terms available is dependent on its credit rating. NOVA Gas Transmission's credit ratings are comparable to other major Canadian natural gas pipelines and are significantly better than comparable major U.S.-based interstate natural gas pipelines.

NEW ACCOUNTING FOR JOINT VENTURES IN 1995

In 1995, as a result of a change in generally accepted accounting principles in Canada, NOVA will retroactively change from the equity method of accounting for its interests in joint ventures to the proportionate consolidation method. This only applies to jointly controlled enterprises, the most significant one being Foothills (see page 35). Under the proportionate consolidation method, NOVA's pro-rata share of financial statement items of its joint ventures will be included in NOVA's corresponding financial statement items instead of being netted into a single line item on NOVA's statements. This change in accounting policy will not change NOVA's net income. Certain financial ratios will be affected.

environment, health & safety

NOVA's goal is to have its Environment, Health and Safety (EHS) programs ranked in the top quartile among comparable companies in the natural gas services and petrochemicals industries. NOVA works with independent EHS consultants to help benchmark its performance against the best in industry and to identify and adopt best practices.

A 1992 management system assessment carried out by a leading independent EHS management and auditing consultant ranked NOVA in the second quartile among comparable companies. Efforts carried out in the last two years have lifted NOVA into an overall first quartile position, confirmed in a late 1994 follow-up assessment by our consultant.

NOVA continued its progress in the area of environmental management in 1994. In petrochemicals, Novacor Chemicals Ltd. and its subsidiaries (Novacor) established both short-term and long-term performance measures for each of their facilities and products. This initiative is consistent with Novacor's participation in the Responsible Care® program, a voluntary EHS and risk management system. Responsible Care was developed in Canada and has since been adopted by chemical companies in 35 countries. A 1994 assessment of Novacor's Canadian operations found them in full compliance with the Canadian Responsible Care codes of practice.

As part of its Responsible Care commitment, Novacor shared information regarding plant emissions with each of its host communities. Novacor also published targets and timetables for reducing those emissions in the future.

NOVA has certain obligations for the remediation of discontinued petrochemicals sites. NOVA has made adequate provision, of $63 million, to cover these costs.

In our gas services business, an independent Canadian consulting firm completed an EHS audit of NOVA Gas Transmission in late 1993, including visits to compressor stations and pipeline construction sites. This audit found our operations to be in substantial compliance with applicable regulations, and suggested minor improvements to further enhance future performance.

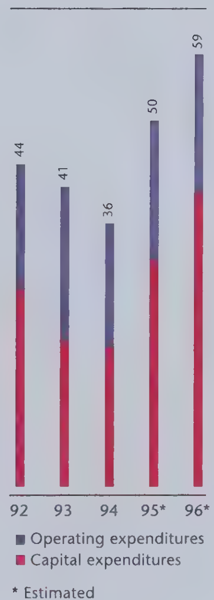
In the area of occupational health, after broad consultation with its employees, NOVA introduced Alcohol & Drug guidelines in 1994. These guidelines reinforce the importance of protecting the health and safety of employees, contractors and the public, while respecting the privacy of our employees. A supporting workplace education program will be implemented in 1995.

Using the results of a year-long study, NOVA became one of the first companies in North America to commit resources to address the needs of shift workers and employees who travel frequently or work irregular hours.

® Certification mark of the CCPA in Canada and the CMA in the United States.

We are committed to operating our businesses to standards which establish NOVA as an industry leader in protecting the environment and the health and safety of employees, customers and the public.

ENVIRONMENTAL EXPENDITURES
($ millions)



risk management

NOVA attempts to limit its exposure to business risk by focusing its activities in areas where it has core competencies. For its international investments, NOVA has an additional policy of sharing risk by bringing partners into each venture. NOVA manages risk in two broad areas: business operations risk and financial risk.

BUSINESS OPERATIONS RISK

NOVA continually assesses the risks posed by its facilities, production processes and products with a view to reducing or minimizing exposures. NOVA's assessments typically consider issues including product toxicology and process safety.

NOVA's understanding of the risks posed by its operations and its proactive loss prevention program enable the company to negotiate more effectively with its insurers. In 1994, NOVA and its insurers adopted a unique five-year risk financing program (most similar programs are negotiated annually). The five-year risk financing program is estimated to save some 40% annually over a typical single-year policy.

FINANCIAL RISK

NOVA actively manages its exposure to interest rates, foreign exchange rates and feedstock prices. NOVA uses interest rate swaps, forward contracts and currency options to minimize the risk of losses due to changing rates or prices. These instruments are used for hedging purposes, not for speculation.

NOVA has a hedging policy which limits hedging activities to its U.S. dollar exposure on cash flow from petrochemicals operations. Hedging activity is reviewed regularly by the Audit and Finance Committee of the Board of Directors. At the end of 1994, NOVA had forward contracts in place to sell a total of U.S. $450 million. These contracts mature throughout 1995 and 1996 and have an average exchange rate of $1.37 per U.S. dollar.

NOVA moderates the risk of fluctuation in feedstock prices through the use of short-term fixed price contracts and commodities futures contracts. The extent to which hedging instruments are used varies, depending upon market conditions. Positions in futures markets are tied to physical feedstock requirements, which include crude oil, natural gas, fuel oil and propane. NOVA does not use derivatives for speculative purposes.

to the shareholders

MANAGEMENT REPORT

To the Shareholders of NOVA Corporation

The consolidated financial statements and other financial information included in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting principles and methods and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent.

Management is also responsible for developing internal controls over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy. Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that NOVA's operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit and Finance Committee. The Committee, which consists solely of non-management directors, reviews the financial statements and annual report and recommends them to the Board for approval. The Committee meets with management, internal auditors and external auditors to discuss internal controls, auditing matters and financial reporting issues. Internal and external auditors have full and unrestricted access to the Audit and Finance Committee. The Committee also recommends a firm of external auditors to be appointed by the shareholders.

February 17, 1995
Calgary, Canada

J.E. Newall, O.C.
Chief Executive Officer

A.T. Poole
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of NOVA Corporation

We have audited the consolidated balance sheet of NOVA Corporation as at December 31, 1994, 1993 and 1992 and the consolidated statements of income and reinvested earnings and cash flows for each of the years in the three year period ended December 31, 1994. These financial statements are the responsibility of NOVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of NOVA as at December 31, 1994, 1993 and 1992 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1994 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

February 17, 1995
Calgary, Canada

Chartered Accountants

financial statements

CONSOLIDATED STATEMENT OF INCOME AND REINVESTED EARNINGS

Year ended December 31 (millions of dollars, except for share data)	1994	1993	1992
Revenue	$ 3,724	$ 3,274	$ 3,027
Operating costs and expenses			
Operating expenses	2,656	2,466	2,231
Depreciation	344	324	289
	3,000	2,790	2,520
Operating income	724	484	507
Other income (deductions)			
Interest expense (Note 2)	(325)	(313)	(330)
Allowance for funds used during construction	18	14	17
Equity in earnings of affiliates (Note 3)	206	49	39
Gain on sale of assets (Note 4)	142	29	–
General and corporate	(27)	(18)	(19)
	14	(239)	(293)
Income before income taxes and minority interest	738	245	214
Income taxes (Note 5)	(155)	(43)	(50)
Minority interest (Notes 1 and 6)	(8)	(11)	(12)
Net income	575	191	152
Reinvested earnings (deficit), beginning of year	140	57	(483)
Transfer from share capital	–	–	483
Excess paid over book value on shares repurchased	–	(10)	–
Less dividends	(113)	(98)	(95)
Reinvested earnings, end of year	$ 602	$ 140	$ 57
Average number of shares outstanding (millions)	464	407	388
Net income per share (Note 13)			
Basic	$ 1.24	$ 0.47	$ 0.39
Fully diluted	$ 1.20	$ 0.47	$ 0.39

In 1992, pursuant to a resolution of its shareholders, NOVA reduced the stated share capital by $483 million in order to eliminate the deficit as at December 31, 1991. In 1987, pursuant to a resolution of its Board of Directors and in conjunction with the reorganization of its share capital, NOVA transferred the balance in the contributed surplus account of $227 million to reinvested earnings.

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

December 31 (millions of dollars)	1994	1993	1992
Assets			
Current assets			
Cash	$ 14	$ 14	$ 17
Receivables (Note 7)	625	504	448
Inventories (Note 8)	290	309	285
Assets held for sale (Note 4)	–	165	–
	929	992	750
Investments and other assets (Note 3)	1,207	450	343
Plant, property and equipment, net (Note 9)	6,121	5,481	5,096
	$ 8,257	$ 6,923	$ 6,189
Liabilities and Shareholders' Equity			
Current liabilities			
Bank loans (Note 10)	$ 297	$ 403	$ 222
Accounts payable and accrued liabilities (Note 11)	612	566	538
Long-term debt instalments due within one year (Note 10)	194	182	81
	1,103	1,151	841
Long-term debt (Note 10)			
Cost-of-service	3,023	2,643	2,353
Non-cost-of-service	426	488	453
	3,449	3,131	2,806
Other deferred credits (Note 12)	264	190	188
Minority interest (Notes 1 and 6)	100	176	182
Convertible debentures and shareholders' equity			
Convertible debentures (Note 13)	–	150	150
Shareholders' equity			
Shares and warrants (Note 14)	2,622	1,938	1,928
Cumulative translation adjustment (Note 3)	117	47	37
Reinvested earnings	602	140	57
	3,341	2,275	2,172
Contingencies and commitments (Notes 6, 10 and 17)			
	$ 8,257	$ 6,923	$ 6,189

See accompanying notes to consolidated financial statements.

On behalf of the board:

J.E. Newall, O.C.
Director

H.N. Hotchkiss
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (millions of dollars)	1994	1993	1992
Operating activities			
Net income	$ 575	$ 191	$ 152
Depreciation	344	324	289
Deferred income taxes	106	27	34
Equity in earnings of affiliates	(206)	(49)	(39)
Gain on sale of assets	(142)	(29)	–
Other	(9)	(14)	3
Funds from operations	668	450	439
Changes in non-cash working capital (Note 15)	(60)	(75)	(22)
	608	375	417
Investing activities (Note 15)			
Plant, property and equipment additions	(1,038)	(785)	(530)
Less related cost-of-service long-term debt additions	545	339	288
	(493)	(446)	(242)
Proceeds on sale of assets (Note 4)	323	35	–
Long-term investments and other assets (Note 15)	(626)	(182)	(66)
Assets exchanged for Methanex common shares	104	–	–
Cash received from long-term investments	53	47	47
Changes in non-cash working capital (Note 15)	15	(10)	–
	(624)	(556)	(261)
Financing activities (Note 15)			
Shares issued	675	22	568
Conversion of convertible debentures	(150)	–	–
Non-cost-of-service long-term debt additions	288	360	439
Long-term debt repaid	(505)	(259)	(1,010)
Preferred shares of subsidiary purchased for cancellation	(76)	(6)	(7)
Shares purchased for cancellation	–	(22)	–
Dividends	(113)	(98)	(95)
Changes in short-term bank loans	(106)	181	(40)
Changes in non-cash working capital (Note 15)	3	–	4
	16	178	(141)
Increase (decrease) in cash	–	(3)	15
Cash at beginning of year	14	17	2
Cash at end of year	$ 14	$ 14	$ 17

See accompanying notes to consolidated financial statements.

notes

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On May 10, 1994, NOVA Corporation of Alberta (Old NOVA) completed a corporate reorganization. Holders of common shares in Old NOVA exchanged their shares for common shares in NOVA Corporation (the Corporation or NOVA). As a result, NOVA replaced Old NOVA as the parent company. These financial statements have been prepared using the continuity of interests method of accounting under which the share exchange is reflected at book values and the new organizational structure is assumed to have been in place since inception. There have been no changes to the assets, liabilities or operations of the consolidated entity except that the preferred shares of Old NOVA have become preferred shares of a subsidiary (NOVA Gas Transmission Ltd.). These preferred shares and related dividends are now presented as a minority interest in these financial statements.

The consolidated financial statements have been prepared by management on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. All amounts are reported in Canadian dollars unless otherwise indicated.

Principles of consolidation

The consolidated financial statements include the accounts of NOVA Corporation which is incorporated under the laws of Alberta, and its subsidiaries.

Cost-of-service

Certain of NOVA's natural gas services businesses and some operations in the petrochemicals business operate under billing arrangements which provide for the recovery of reasonable and necessary operating expenses, cost of feedstock and fuel, depreciation, amortization, income and other taxes, interest and net foreign exchange gains and losses on debt servicing, and an assured rate of return on investment.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis with no allocation of fixed production overhead.

Investments

NOVA accounts for its investments in affiliates and joint ventures in which it is able to exercise significant influence by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings. Other investments are carried at cost.

Plant, property and equipment

Plant, property and equipment are carried at cost. Financing costs incurred during major construction are capitalized as part of the cost of the asset.

Future removal and site restoration costs are provided for on a straight-line basis over the expected remaining economic lives of the assets when such costs can be reasonably determined.

Depreciation

Plant and equipment are depreciated on the straight-line basis at annual rates varying from 2% to 33%. These rates are designed to write these assets off over their estimated useful lives.

Allowance for funds used during construction (AFUDC)

For certain of NOVA's natural gas services businesses and some operations in the petrochemicals business, a return on capital invested in new facilities under construction is recoverable from customers and is included in income.

Income taxes

The agreements for certain cost-of-service operations provide for the recovery of income taxes on the taxes payable method. The income tax provision recorded for these operations represents only the income taxes deemed to be currently payable and recoverable under the billing mechanism in place.

For non-cost-of-service operations, the deferral method of tax allocation accounting is followed.

Pension plans

The agreements for certain cost-of-service operations provide for the recovery of pension costs on the basis of cash contributions. The pension expense for these operations represents only contributions made to the pension plans during the year and therefore recoverable under the billing mechanism in place.

For non-cost-of-service operations the cost of pension benefits earned by employees is determined using the projected benefit method pro-rated on service and is charged to expense as services are rendered. The cost of pension benefits reflects management's best estimates of the expected investment yields, salary escalations, mortality rates, terminations and the age at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups. The adjusted market value of pension plan assets is determined based on a four-year moving average of pension plan asset market values.

Post-retirement benefits other than pensions

NOVA provides certain medical care and life insurance benefits to eligible retirees and their dependants. The agreements for certain cost-of-service operations provide for the recovery of such benefits on the basis of cash contributions. The post-retirement benefit expense for these operations represents only contributions made during the year and therefore recoverable under the billing mechanism in place.

Prior to January 1, 1993, the cost of providing these benefits for non-cost-of-service operations was expensed when paid. Beginning January 1, 1993, NOVA expenses these costs during the periods in which the employees render services.

Foreign currency translation

NOVA's foreign operations are considered self-sustaining and are translated into Canadian dollars using the current rate method. Resulting translation gains or losses are deferred in a separate component of shareholders' equity entitled "Cumulative Translation Adjustment", until there is a realized reduction of the investment in the foreign operation.

Foreign denominated long-term monetary items (principally long-term debt) are translated at the current rate of exchange. For cost-of-service operations, the exchange differential is recoverable from customers and is reported as a reduction or addition in the associated long-term monetary item. For non-cost-of-service operations, the unrealized translation gains or losses are deferred and amortized over the remaining lives of the related items.

Interest rate swap agreements

The differential to be paid or received is accrued as interest rates change and is recognized over the lives of the agreements.

Hedging activity

NOVA enters into forward contracts and options that are designated and are effective as a hedge against changes in commodity prices or foreign exchange rates. Gains and losses are recognized offsetting the effect of increases or decreases in commodity purchase prices or foreign exchange gains or losses on foreign cash flows when the hedged transaction occurs.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

2. INTEREST EXPENSE

Year ended December 31 (millions of dollars)	1994	1993	1992
Interest on long-term debt	$ 294	$ 294	$ 304
Interest on short-term obligations	29	15	19
Interest on convertible debentures	6	9	9
Interest income	(4)	(5)	(2)
	$ 325	$ 313	$ 330

3. INVESTMENTS AND OTHER ASSETS

NOVA accounts for investments in affiliates and joint ventures in which it is able to exercise significant influence by the equity method.

December 31 and for the year ended (millions of dollars)	1994		1993		1992	
	Investment	Equity in earnings of affiliates	Investment	Equity in earnings of affiliates	Investment	Equity in earnings of affiliates
Natural gas services investments						
Foothills Pipe Lines Ltd.	$ 139	$ 18	$ 144	$ 15	$ 122	$ 16
Natural Gas Clearinghouse[1,3]	279	13	–	–	–	–
TQM Pipeline Partnership[2,3]	–	–	–	5	34	5
Other natural gas services investments[3]	190	21	52	9	46	1
	608	52	196	29	202	22
Petrochemicals investments						
Methanex Corporation[1]	507	134	160	–	–	–
Other petrochemicals investments[3]	61	20	65	20	104	17
	568	154	225	20	104	17
Other assets	31	–	29	–	37	–
	$ 1,207	$ 206	$ 450	$ 49	$ 343	$ 39

(1) Equity investments and the cumulative translation adjustment account (CTA) have been increased by $35 million during 1994. This is the result of unrealized foreign exchange gains on the translation of those investees' financial statements which are denominated in U.S. dollars. Other increases in the CTA for 1994 and 1993 are from translation of the financial statements of wholly owned subsidiaries (see Note 1 – Foreign currency translation).

(2) As at December 31, 1993, NOVA classified its 50% partnership interest in the TQM Pipeline Partnership ($32 million) as an asset held for sale. The interest was subsequently sold in January 1994 (see Note 4).

(3) Equity earnings of partnerships such as Natural Gas Clearinghouse and TQM are reported on a before-tax basis. Income taxes on these partnership earnings are the responsibility of NOVA and are included as part of NOVA's income tax provision.

Dividends and distributions received from affiliated companies were $53 million (1993 – $47 million, 1992 – $47 million).

Foothills Pipe Lines Ltd. (Foothills)

NOVA's investment in Foothills at December 31, 1994, 1993 and 1992 is 50%. At these dates, NOVA also has a 49% direct ownership interest in Foothills Pipe Lines (Alta.) Ltd., a subsidiary of Foothills. Foothills is responsible for the planning, construction and operation of the Canadian segment of the Alaska Natural Gas Transportation System and is controlled jointly with Westcoast Energy Inc. During 1994, Foothills billed NOVA $74 million for gas transportation services (1993 – $66 million, 1992 – $64 million). The following is NOVA's proportionate share of Foothills' summarized financial information.

Year ended December 31 (millions of dollars)	1994	1993	1992
Revenue	$ 81	$ 74	$ 73
Operating expenses	$ 43	$ 37	$ 33
Net income	$ 18	$ 15	$ 16

December 31 (millions of dollars)	1994	1993	1992
Current assets	$ 20	$ 25	$ 36
Plant, property, equipment and other assets	505	512	589
Current liabilities	(25)	(23)	(93)
Long-term liabilities	(304)	(306)	(345)
Shareholders' equity	$ 196	$ 208	$ 187

Natural Gas Clearinghouse

During 1994, NOVA acquired a 39.1% interest in Natural Gas Clearinghouse (NGC), a U.S. gas services business with investments in gas marketing, gathering and processing facilities (see Note 15). The following is summarized financial information for NGC.

Year ended December 31 (millions of dollars)(1)	1994
Revenue	$ 4,521
Operating expenses	$ 4,365
Net income(2)	$ 59

December 31 (millions of dollars)(1)	1994
Current assets	$ 628
Plant, property, equipment and other assets	278
Current liabilities	(570)
Long-term liabilities	(123)
Shareholders' equity	$ 213

(1) NGC accounts for its operations in U.S. dollars. As NGC's operations are self-sustaining they are translated into Canadian dollars using the current rate method.

(2) As NGC is a partnership, income taxes are the responsibility of the partners. Accordingly, NGC's net income does not include a provision for income taxes.

Other natural gas services investments

NOVA's other natural gas services investments and joint ventures as at December 31, 1994, included the following: a 69.56% beneficial ownership interest in Novagas Clearinghouse Limited Partnership (Novagas), a Canadian natural gas services joint venture enterprise with investments in gas marketing, gathering and processing facilities that was established in 1994; a 50% interest in Pan-Alberta Resources Inc., which owns a 50% interest in a natural gas liquids extraction plant in Alberta (December 31, 1993 and 1992 – 50%); a 20.6% interest in GasInvest S.A., which owns 70% of the northern segment of Argentina's natural gas pipeline system (December 31, 1993 and 1992 – 16.2%); a 25% interest in the Moomba-Sydney pipeline in Australia acquired during 1994 through a joint venture (see Note 15); and a 40% interest in a Malaysian-based partnership providing project management and engineering services in Asia (December 31, 1993 and 1992 – 40%).

Methanex Corporation

NOVA owns 24.1% of Methanex Corporation as at December 31, 1994 (1993 – 9%). Methanex produces and markets chemical grade methanol, ammonia and synthetic gasoline (see Note 15). The market value of NOVA's investment in Methanex shares at December 31, 1994 was approximately $857 million (1993 – $161 million). The following is summarized financial information for Methanex.

Year ended December 31 (millions of dollars)(1)	1994
Revenue	$ 2,030
Operating expenses	$ 1,298
Net income	$ 604

December 31 (millions of dollars)(1)	1994
Current assets	$ 915
Plant, property, equipment and other assets	1,453
Current liabilities	(338)
Long-term liabilities	(616)
Shareholders' equity	$ 1,414

(1) Methanex accounts for its operations in U.S. dollars. As Methanex's operations are self-sustaining they are translated into Canadian dollars using the current rate method.

Other petrochemical investments

NOVA's other petrochemical investments as at December 31, 1994, 1993 and 1992 included a 20% interest in the Cochin pipeline, which transports ethane, ethylene and other products from Alberta to markets in Ontario and the United States; a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership; a 33.3% interest in an ethane gathering system in Alberta; a 50% interest in the Catalytic Distillation Technologies Partnership which develops and sells technology, principally to the refining industry, and is located in Texas; and a 42% interest in Shincor Silicones, Inc. which operates a silicone plant in Ohio.

Other assets

Other assets include deferred debt issue costs which are being amortized over the terms of the related debt instruments. Also included in 1992 is a 31.7% interest in a valve manufacturer which NOVA sold in 1993 for a gain of $25 million (see Note 4).

4. GAIN ON SALE OF ASSETS

Year ended December 31, 1994 (millions of dollars)	Gain on sale before tax	Gain on sale after tax	Proceeds
Sale of 50% interest in TQM Pipeline Partnership[1]	$ 20	$ –	$ 52
Sale of Novalta Resources Inc.[2]	120	120	265
Other	2	1	6
	$ 142	$ 121	$ 323

Year ended December 31, 1993 (millions of dollars)			
Sale of 31.7% interest in Grove Italia S.p.A.	$ 25	$ 25	$ 25
Other	4	4	10
	$ 29	$ 29	$ 35

(1) The $32 million TQM Pipeline Partnership interest was classified as an asset held for sale as at December 31, 1993 and was sold in January 1994.

(2) The plant, property and equipment of Novalta ($133 million) was classified as an asset held for sale as at December 31, 1993 and was sold in January 1994.

5. INCOME TAXES

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before income taxes as shown in the following table:

Year ended December 31 (millions of dollars)	1994	1993	1992
Statutory income tax rate	44.3%	44.3%	44.3%
Income before income taxes and minority interest	$ 738	$ 245	$ 214
Computed income tax expense	$ 327	$ 109	$ 95
Increase (decrease) in taxes resulting from:			
Lower effective foreign tax rates	(16)	(6)	(2)
Non-provision of deferred income taxes on cost-of-service operations[1]	(22)	(26)	(32)
Non-deductible depreciation	–	1	1
Manufacturing and processing deduction	(21)	(3)	(2)
Non-taxable equity in earnings of affiliates	(76)	(15)	(11)
Non-taxable AFUDC	(8)	(6)	(7)
Non-taxable portion of gains on sale of assets	(42)	(13)	–
Other	13	2	8
Income tax expense	$ 155	$ 43	$ 50
Current income taxes	$ 49	$ 16	$ 16
Deferred income taxes[2]	106	27	34
Income tax expense	$ 155	$ 43	$ 50

(1) Agreements for certain cost-of-service operations provide for the recovery of income taxes from customers. NOVA records income tax expense on these operations equal to the amounts recoverable under the agreements and therefore, there is no effect on net income. Some agreements limit the recoverable income taxes to current taxes payable. Accordingly, the provision for income taxes excludes deferred income tax expense relating to these agreements. Cumulative unrecorded deferred income taxes payable amounted to $422 million at December 31, 1994 (1993 – $400 million, 1992 – $374 million).

(2) The principal timing difference in calculating deferred income taxes, for both cost-of-service and non-cost-of-service operations, relates to deductions for tax purposes in respect of plant, property and equipment in excess of depreciation provided for in the accounts.

6. MINORITY INTEREST

The preferred shares and related dividends of NOVA Gas Transmission Ltd., a subsidiary of NOVA, are presented as minority interest on the consolidated financial statements of NOVA Corporation and include the following:

December 31	1994	1993	1992	1994	1993	1992
	(number of shares)			(millions of dollars)		
First preferred shares						
7-3/4%(1)	–	409,595	446,795	$ –	$ 10	$ 11
9-3/4%(1)	–	412,140	475,240	–	11	12
9.76%(1)	–	565,401	644,401	–	14	16
7.60%(1)	–	1,641,820	1,731,820	–	41	43
Variable rate(2)	3,997,700	3,997,700	3,997,700	100	100	100
				$ 100	$ 176	$ 182

(1) On August 15, 1994, NOVA Gas Transmission redeemed its First Preferred Share series 7-3/4% at $25.25 per share and series 9-3/4%, 9.76% and 7.60% at $25.00 per share for a total cost of $76 million.

(2) NOVA Gas Transmission redeemed its Variable Rate Cumulative Redeemable First Preferred shares on February 15, 1995, at $25.00 per share for a total cost of $100 million.

7. RECEIVABLES

December 31 (millions of dollars)	1994	1993	1992
Trade	$ 573	$ 444	$ 357
Other	59	67	99
Allowance for doubtful accounts	(7)	(7)	(8)
	$ 625	$ 504	$ 448

NOVA sells trade receivables to certain financial institutions on a revolving basis to certain limits. Recourse to NOVA is limited to a maximum of 10% of the amount outstanding at any point in time. At December 31, 1994, trade receivables sold amounted to $77 million (1993 – $70 million, 1992 – $126 million).

8. INVENTORIES

December 31 (millions of dollars)	1994	1993	1992
Materials and supplies	$ 88	$ 97	$ 103
Raw materials	95	91	84
Work in process	4	6	7
Finished goods	103	115	91
	$ 290	$ 309	$ 285

9. PLANT, PROPERTY AND EQUIPMENT

December 31 (millions of dollars)	1994	1993	1992
Cost			
Natural gas services	$5,575	$4,811	$4,295
Petrochemicals	2,889	2,789	2,720
Other	33	27	26
	$8,497	$7,627	$7,041
Accumulated depreciation			
Natural gas services	$1,261	$1,162	$1,020
Petrochemicals	1,110	979	920
Other	5	5	5
	$2,376	$2,146	$1,945
Net book value			
Natural gas services	$4,314	$3,649	$3,275
Petrochemicals	1,779	1,810	1,800
Other	28	22	21
	$6,121	$5,481	$5,096

10. LONG-TERM DEBT

December 31 (millions of dollars)		Maturity	1994	1993	1992
NOVA Gas Transmission Ltd.[1]					
Unsecured debentures and term notes					
11-3/8%	Series 6	1993	$ –	$ –	$ 27
17-3/4%	Series 8	1997	19	23	27
12-1/8%	Series 9	1993	–	–	100
11-1/8%	Series 12	1993	–	–	50
11.95%	Series 13	2007	109	114	120
10-3/4%	Series 14	1999	100	100	100
11.70%	Series 15	2008	137	144	150
11.15%	Series 16	1994	–	150	150
10.95%	Series 17	1994	–	100	100
11.20%	Series 18	2014	145	150	150
12-5/8%	Series 19	2010	100	100	100
11-7/8%	Series 20	2001	100	100	100
12.20%	Series 21	2016	125	125	125
8.30%	Series 22	2003	150	150	–
9.90%	Series 23	2024	100	–	–
10%	Series B	1996	100	100	100
8-3/4%	Series C ($U.S.)	1994	–	132	127
8-1/2%	($U.S.)	2012	245	232	222
9.95%	($U.S.)[2]	1995	105	99	95
9-3/4%	($U.S.)	1997	137	172	165
8.95%	($U.S.)[2]	2000	210	199	191
7-7/8%	($U.S.)	2002	175	165	159
7-7/8%	($U.S.)	2023	281	265	–
7-1/4%	($U.S.)	1999	210	–	–
8-1/2%	($U.S.)	2004	175	–	–
8-1/2%	Term note	1997	16	–	–
9%	Term note	1998	53	–	–
9%	Term note[2]	2000	125	–	–
9.40%	Term note[2]	2002	6	–	–
Unsecured bank loans and notes[3]		Various	139	214	12
			3,062	2,834	2,370
Exchange differential related to cost-of-service customers			(170)	(93)	(38)
			2,892	2,741	2,332
Other subsidiaries					
Secured loans					
Ethylene plant I					
Secured loan ($U.S.)[3]		1998	135	159	182
Ethylene plant II					
Secured loan ($U.S.)[3]		2004	178	186	195
Secured notes					
13-3/4% Series A ($U.S.)		1999	17	18	21
9.85% Series B ($U.S.)		2004	21	22	23
Secured bank loan[3]		2004	10	11	12
			361	396	433

December 31 (millions of dollars)	Maturity	1994	1993	1992
Exchange differential related to cost-of-service customers		(43)	(27)	(12)
		318	369	421
Other secured loans(3)	Various	128	203	93
		446	572	514
Unsecured loans(3)	Various	305	–	41
		3,643	3,313	2,887
Less instalments due within one year		194	182	81
		$ 3,449	$ 3,131	$ 2,806
Cost-of-service(4)		$ 3,023	$ 2,643	$ 2,353
Non-cost-of-service		426	488	453
		$ 3,449	$ 3,131	$ 2,806

(1) As at December 31, 1994, all unsecured debentures and term notes listed under NOVA Gas Transmission Ltd. are included in that subsidiary's regulated cost-of-service debt.

(2) Interest rate swap agreements have been made on these notes. Refer to Note 19 for further details.

(3) The interest rate is a function of generally prevailing money market interest rates, Canadian bank prime rates and London Inter Bank Offered Rates. The composite average interest rate for these loans at December 31, 1994, was approximately 6.7% (1993 – 5.3%, 1992 – 5.75%).

(4) Long-term debt classified as cost-of-service debt represents the debt component of the capital structure for the investment base of NOVA's cost-of-service operations. These regulated operations are subject to agreements under which the billing mechanism includes an assured return to provide for the repayment of such debt and the payment of interest expense. Realized foreign exchange gains or losses on such debt are also for the account of the customer.

Ethylene plant I

This financing is secured by a first fixed and floating charge on the first ethylene plant, the ethylene pipeline and related assets and by the assignment of certain related contracts.

Ethylene plant II

This financing is secured by charges on certain of the proceeds of the ethylene sales contracts for the second ethylene plant, charges on related performance guarantees and a first fixed charge on the second ethylene plant and certain related contracts.

Other secured loans

Other loans of $128 million in subsidiaries at December 31, 1994 (1993 – $203 million, 1992 – $93 million) are secured by certain property, plant and equipment and other assets and agreements of the subsidiaries.

Short-term bank loans

Short-term bank loans of $297 million at December 31, 1994 (1993 – $403 million, 1992 – $222 million) include loans of $280 million (1993 – $280 million, 1992 – $33 million) which are secured by certain property, plant and equipment and other assets and agreements. The weighted average interest rate on these loans was 5.4% (1993 – 5.3%, 1992 – 7.3%).

Sinking fund and repayment requirements

Sinking fund and repayment requirements in respect of long-term debt for the five years following December 31, 1994 are: 1995 – $194 million, 1996 – $235 million, 1997 – $157 million, 1998 – $184 million, and 1999 – $87 million. Long-term debt of $105 million at December 31, 1994, which NOVA refinanced in January 1995 with long-term funding, has been excluded from sinking fund and repayment requirements.

Lines of credit

At December 31, 1994, NOVA had unutilized contracted credit facility agreements with a number of Canadian banks totalling approximately $650 million. The credit facilities expire between November 1995 and January 2000 but may be renegotiated at those dates. NOVA may borrow in Canadian or U.S. dollars and other freely available European currencies at interest rates related to Canadian and U.S. prime rates or the London Inter Bank Offered Rates.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31 (millions of dollars)	1994	1993	1992
Accounts payable			
Trade	$ 366	$ 335	$ 320
Other	46	27	29
	412	362	349
Accrued liabilities			
Interest	69	77	78
Site cleanup and restoration (current portion)	4	3	6
Other	69	69	61
	142	149	145
Income taxes payable	27	27	16
Dividends payable	31	28	28
	$ 612	$ 566	$ 538

12. OTHER DEFERRED CREDITS

December 31 (millions of dollars)	1994	1993	1992
Deferred income taxes	$ 168	$ 93	$ 64
Site cleanup and restoration (long-term portion)	59	54	52
Other	37	43	72
	$ 264	$ 190	$ 188

Other deferred credits include a deferred gain from the sale and leaseback of NOVA Gas Transmission's head office building, long-term costs associated with restructuring, and pension and post-retirement benefit accruals.

At December 31, 1994, $221 million had been received on behalf of Pan-Alberta Gas customers in connection with long-term contracts to supply natural gas. The amount is being held in trust and will be paid to the customers over the next six years. The amounts held in trust have been netted against the obligation.

13. CONVERTIBLE DEBENTURES

On August 18, 1994, NOVA received notice from The Alberta Heritage Savings Trust Fund requesting conversion of all $150 million of the 1987 Adjustable Rate Convertible Subordinated Debentures. These debentures were converted into 14,018,691 shares at $10.70 per share. These debentures paid a minimum interest rate of 6-1/4% per annum.

Assuming the conversion had taken place on January 1, 1994, NOVA's 1994 adjusted basic net income per share would be $1.22 per share.

14. SHARES AND WARRANTS

(a) Authorized

Unlimited number of voting common shares (shares) without par value.
5,000,000 warrants.

(b) Issued and outstanding

December 31	1994	1993	1992	1994	1993	1992
	(number of shares and warrants)			(millions of dollars)		
Shares	478,172,048	406,724,952	406,280,031	$ 2,622	$ 1,937	$ 1,927
Warrants	10,600	28,100	38,875	–	1	1
				$ 2,622	$ 1,938	$ 1,928

(c) Shares issued

Changes in the share capital for the three years ended December 31, 1994, are summarized as follows:

	Number of shares	Common share capital
		(millions of dollars)
December 31, 1991	325,660,912	$ 1,831
For cash	80,000,000	574
For cash under the dividend reinvestment and share purchase plan	460,813	4
On exercise of 49,400 warrants	148,200	1
For cash on exercise of stock options (at $6.82)	10,106	–
Transfer to reinvested earnings(1)	–	(483)
	80,619,119	96
December 31, 1992	406,280,031	1,927
For cash under the dividend reinvestment and share purchase plan	508,218	5
On exercise of 10,775 warrants	32,325	–
For cash on exercise of stock options (at prices ranging from $6.82 to $8.625)	2,404,378	17
Repurchased for cash	(2,500,000)	(12)
	444,921	10
December 31, 1993	406,724,952	1,937
For cash	52,598,228	492
For cash under the dividend reinvestment and share purchase plan	442,702	5
On exercise of 17,500 warrants	52,500	–
On conversion of convertible debentures (Note 13)	14,018,691	150
For cash on exercise of stock options (at prices ranging from $7.63 to $12.67)	4,334,975	38
	71,447,096	685
December 31, 1994	478,172,048	$ 2,622

(1) In 1992, pursuant to a resolution of its shareholders, NOVA reduced the stated capital by $483 million in order to eliminate the deficit as at December 31, 1991.

(d) Shares reserved for future issue

December 31	1994	1993	1992
		(number of shares)	
Under the dividend reinvestment and share purchase plan ...	1,915,470	2,358,172	2,866,390
For exercise of convertible debentures (Note 13)	–	14,018,692	14,018,692
For exercise of warrants	31,800	84,300	116,625
Under the incentive stock option plan (1982)(1) ...	14,750,700	19,085,675	21,490,000
	16,697,970	35,546,839	38,491,707

(1) Under the incentive stock option plan (1982), options are outstanding to officers and employees to purchase 10,571,500 shares at prices ranging from $7.63 to $12.67 per share (1993 – 12,611,025 shares at prices ranging from $6.875 to $12.67 per share, 1992 – 12,871,725 shares at prices ranging from $6.82 to $12.67 per share) with expiration dates between February 22, 1995 to August 4, 2004, and 4,179,200 shares are reserved but unallocated (1993 – 6,474,650 shares, 1992 – 8,618,275 shares).

(e) Warrants

The warrants were issued in 1986 at a price of $15.00 per warrant. Each warrant entitles the holder at his or her option to obtain on exercise three NOVA Corporation shares at any time before July 31, 1996, or either one no par value first preferred share of NOVA Gas Transmission Ltd. or one no par value second preferred share of NOVA Gas Transmission Ltd. from August 1, 1991 to July 31, 1996. NOVA may purchase for cancellation any or all of the warrants outstanding in the markets.

(f) Shareholder Rights Plan

In May 1994, NOVA's shareholders approved a shareholder rights plan where one right was issued for each outstanding common share. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. The plan expires in May 1999.

15. OPERATING, INVESTING AND FINANCING ACTIVITIES

(a) Changes in non-cash working capital

Year ended December 31 (millions of dollars)	1994	1993	1992
Receivables	$ (121)	$ (56)	$ (65)
Assets held for sale	165	(165)	–
Inventories	19	(24)	6
Accounts payable and accrued liabilities	46	28	3
Changes in non-cash working capital	109	(217)	(56)
Reclassification and other items not having a cash effect:			
Assets held for sale	(146)	146	–
Other items	(5)	(14)	38
Changes in non-cash working capital having a cash effect ...	$ (42)	$ (85)	$ (18)
These changes relate to the following activities:			
Operating	$ (60)	$ (75)	$ (22)
Investing	15	(10)	–
Financing	3	–	4
	$ (42)	$ (85)	$ (18)

(b) Gross investing and financing activities

Year ended December 31 (millions of dollars)	1994	1993	1992
Investing activities per statement of cash flows	$ (624)	$ (556)	$ (261)
Add back cost-of-service long-term debt additions	(545)	(339)	(288)
Gross investing activities	$ (1,169)	$ (895)	$ (549)
Financing activities per statement of cash flows	$ 16	$ 178	$ (141)
Add back cost-of-service long-term debt additions	545	339	288
Gross financing activities	$ 561	$ 517	$ 147

(c) Long-term investment activities

Expenditures were made on the following long-term investments:

Year ended December 31 (millions of dollars)	1994	1993	1992
Methanex Corporation[1]	$ 223	$ 160	$ –
Natural Gas Clearinghouse	246	–	–
Interest in Moomba-Sydney pipeline in Australia through ownership interest in GasInvest Australia Pty Ltd.	72	–	–
Interest in pipeline in Argentina through ownership interest in GasInvest S.A.	20	–	46
Pan-Alberta Gas Ltd.	19	–	–
Novagas Clearinghouse Limited Partnership	9	–	–
Foothills Pipe Lines Ltd.	–	2	9
Other	37	20	11
	$ 626	$ 182	$ 66

(1) Includes the cost of NOVA's methanol assets ($104 million) that were also exchanged for Methanex common shares. No gain or loss was recognized on the exchange of the methanol assets.

The cost of certain investments made during 1994 exceeded NOVA's share of their underlying net book values at the dates of acquisition.

(millions of dollars)	Purchase price excess	Allocation of the excess	Amortization period
Methanex Corporation	$ 182	Plant, property and equipment	20 years
Natural Gas Clearinghouse	$ 193	Goodwill	20 years
Pan-Alberta Gas Ltd.	$ 7	Goodwill	20 years

(d) Interest and income taxes paid

Interest paid during 1994 amounted to $333 million (1993 – $319 million, 1992 – $340 million). Income taxes paid during 1994 amounted to $36 million (1993 – $16 million, 1992 – $12 million).

16. POST-RETIREMENT BENEFITS

Pension plans

NOVA has pension plans covering substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment and are partially indexed to inflation. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. Funding by NOVA is made in accordance with the projected unit credit method and applicable legislation. Assets of the plan consist primarily of publicly traded equity and fixed income securities. In 1994, the assumed future rates of return on assets and discount rates used to determine the estimated projected benefit obligations of the plans were 8% (1993 – 8%, 1992 – 9%). In 1994, the assumed long-term salary and wage escalation rates, excluding merit increases, averaged 4.5% (1993 – 4.5%, 1992 – 5.5%).

Net pension expense consisted of the following:

Year ended December 31 (millions of dollars)	1994	1993	1992
Current service costs	$ 22	$ 22	$ 19
Interest cost on projected benefit obligations	36	33	31
Return on assets	(31)	(30)	(32)
Net total of other components	(2)	1	(2)
	25	26	16
Amounts attributable to cost-of-service contracts	(10)	(9)	(5)
Net pension expense	$ 15	$ 17	$ 11

The status of the pension plans is as follows:

December 31 (millions of dollars)	1994	1993	1992
Estimated obligations			
Projected benefits based on service to date and present remuneration	$ 348	$ 310	$ 278
Additional amounts related to projected salary and wage increases	152	140	126
Total projected benefit obligations	500	450	404
Assets available at adjusted market value	443	420	393
Deficiency on an accounting basis	$ (57)	$ (30)	$ (11)

The adjusted market value of plan assets is determined on a four-year moving average basis. Based on year-end market values, NOVA's pension plan assets at December 31, 1994 amounted to $471 million (1993 – $466 million, 1992 – $384 million).

Post-retirement benefits other than pensions

Prior to 1993, post-retirement benefit costs were expensed as they were incurred. Effective January 1, 1993, NOVA prospectively changed the method used in accounting for post-retirement benefits other than pensions. NOVA now accrues the expected costs of providing these benefits for non-cost-of-service operations during the periods in which the employees render service. The accumulated post-retirement benefit obligation that arose as a result of the change in methodology is being recognized over the expected average remaining service lifetime of the employees, which is 16 years. In 1994, the assumed long-term salary and wage escalation rates, excluding merit increases, averaged 4.5% (1993 – 4.5%). Long-term medical inflation was assumed to be 6% (1993 – 5.5%) and the discount rate used to calculate the obligation was 8% (1993 – 8%). Post-retirement benefit costs are funded as they are incurred. The accumulated unrecorded post-retirement benefit obligation as at December 31, 1994 was approximately $40 million (1993 – $37 million).

Net post-retirement benefit expense for 1994 and 1993 consisted of the following:

Year ended December 31 (millions of dollars)	1994	1993
Current service costs	$ 2	$ 2
Interest costs on accumulated post-retirement obligations	3	3
Net total of other components	2	2
	7	7
Amounts attributable to cost-of-service contracts	(2)	(2)
Net post-retirement benefit expense	$ 5	$ 5

17. CONTINGENCIES AND COMMITMENTS

(a) NOVA leases office space, data processing and transportation equipment under various operating leases. The minimum lease payments, net of recoveries under cost-of-service operations and sub-leases, are approximately $46 million in 1994, $42 million in 1995, $31 million in 1996, $26 million in 1997, $18 million in 1998, $8 million in 1999 and $4 million thereafter.

(b) The sale and leaseback agreement for the NOVA Gas Transmission head office building provided that, on or before January 1, 1995, NOVA Gas Transmission would offer to purchase the building for $157 million when the lease expires on December 31, 1997. On July 28, 1994, NOVA Gas Transmission also entered into a head office lease extension option agreement where it could exercise an option on or before October 2, 1995, to extend the lease for an additional 15 years. Notwithstanding this agreement, the lease will not be extended if NOVA Gas Transmission does not obtain refinancing on terms satisfactory to it. An offer to purchase the building was made on December 19, 1994; however, if the lease is extended, the offer to purchase the building will be revoked.

(c) In addition to the future site cleanup and restoration costs which have been accrued (see Notes 11 and 12), costs will be incurred in the future for plant sites when they are sold or no longer used in NOVA's operations. The liability with respect to these costs is not currently determinable.

(d) Various lawsuits and claims are pending by and against NOVA. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of NOVA.

(e) On January 12, 1995, NOVA Gas Transmission filed its 1995 General Rate Application with the Public Utilities Board of Alberta (PUB) requesting an after-tax rate of return of 13% on an actual common equity component that is expected to average 32.8% over all of 1995. It is anticipated that the PUB will hold a hearing regarding these rates in the second half of 1995, with a decision to follow in late 1995.

18. SEGMENTED INFORMATION ON OPERATIONS

NOVA's principal business segments are:
Natural gas services – transportation of natural gas by pipeline, and related activities.
Petrochemicals – production and marketing activities for various petrochemicals products.

(a) Financial information by business segment

Year ended December 31 (millions of dollars)	1994	1993	1992
Revenue			
Natural gas services	$1,073	$ 966	$ 877
Petrochemicals	2,651	2,308	2,150
	$3,724	$3,274	$3,027
Operating income			
Natural gas services	$ 426	$ 405	$ 406
Petrochemicals	298	79	101
	$ 724	$ 484	$ 507
Equity in earnings of affiliates			
Natural gas services	$ 52	$ 29	$ 22
Petrochemicals	154	20	17
	$ 206	$ 49	$ 39
Assets			
Natural gas services	$5,309	$4,208	$3,790
Petrochemicals	2,910	2,696	2,373
Other	38	19	26
	$8,257	$6,923	$6,189
Plant, property and equipment additions			
Natural gas services	$ 834	$ 523	$ 451
Petrochemicals	204	262	79
	$1,038	$ 785	$ 530
Depreciation			
Natural gas services	$ 169	$ 156	$ 141
Petrochemicals	175	168	148
	$ 344	$ 324	$ 289

(b) Financial information by geographic area based on location of the manufacturing facilities

Year ended December 31 (millions of dollars)	1994	1993	1992
Revenue			
Canada	$3,375	$2,978	$2,755
United States	349	296	272
	$3,724	$3,274	$3,027
Operating income (loss)			
Canada	$ 732	$ 495	$ 517
United States	(8)	(11)	(10)
	$ 724	$ 484	$ 507
Assets			
Canada	$7,374	$6,418	$5,836
United States	706	441	307
Other	177	64	46
	$8,257	$6,923	$6,189

(c) Financial information on cost-of-service/non-cost-of-service operations

Year ended December 31 (millions of dollars)	1994	1993	1992
Revenue			
Cost-of-service	$1,483	$1,294	$1,198
Non-cost-of-service	2,241	1,980	1,829
	$3,724	$3,274	$3,027
Operating income			
Cost-of-service	$ 540	$ 477	$ 488
Non-cost-of-service	184	7	19
	$ 724	$ 484	$ 507
Assets			
Cost-of-service	$5,086	$4,520	$4,144
Non-cost-of-service	3,171	2,403	2,045
	$8,257	$6,923	$6,189
Plant, property and equipment additions			
Cost-of-service	$ 842	$ 594	$ 474
Non-cost-of-service	196	191	56
	$1,038	$ 785	$ 530
Depreciation			
Cost-of-service	$ 241	$ 215	$ 198
Non-cost-of-service	103	109	91
	$ 344	$ 324	$ 289
Contribution to net income			
Cost-of-service			
Operating income	$ 540	$ 477	$ 488
Interest expense	(255)	(235)	(232)
AFUDC	18	14	17
Equity in earnings of affiliates	30	31	32
Income taxes	(109)	(80)	(89)
General and corporate	(5)	–	–
Minority interest	(8)	(11)	(12)
	211	196	204
Non-cost-of-service			
Operating income	184	7	19
Interest expense	(70)	(78)	(98)
Equity in earnings of affiliates	176	18	7
Gain on sales of assets	142	29	–
General and corporate	(22)	(18)	(19)
Income taxes	(46)	37	39
	364	(5)	(52)
Net income	$ 575	$ 191	$ 152

(d) Export sales from Canadian operations

Year ended December 31 (millions of dollars)	1994	1993	1992
United States	$ 802	$ 527	$ 484
Other	77	176	243
	$ 879	$ 703	$ 727

19. DERIVATIVE INSTRUMENTS

NOVA has only limited involvement with derivative instruments and does not use them for trading purposes. They are used to manage well-defined interest rate, foreign exchange and commodity price risks. NOVA is exposed to credit-related losses in the event of non-performance of counterparties to financial instruments, but expects counterparties to meet their obligations given their high credit ratings.

(a) Interest rate risk management

NOVA enters into various types of interest rate contracts to manage its interest rate risk by maintaining a combination of fixed and floating rate exposure.

December 31 (millions of dollars, except for rates)	1994	1993
Floating to fixed rate swaps –		
notional amount	$ 131	$ –
Average receive rate	9.02 %	– %
Average pay rate	6.07 %	– %
Fixed to floating rate swaps –		
notional amount	$ 315	$ 298
Average pay rate	9.12 %	9.45 %
Average receive rate	5.89 %	4.02 %

By entering into interest rate swap agreements, NOVA agrees to exchange with counterparties the difference between fixed rate and floating rate interest amounts calculated by reference to banker's acceptance and London Inter Bank Offer Rates and to an agreed notional principal amount.

(b) Foreign exchange risk management

During 1993, NOVA established a hedging policy which limits hedging activities to its U.S. dollar exposure on cash flow from petrochemicals operations. NOVA has U.S. and Canadian based petrochemical operations, both of which sell products which are denominated in U.S. dollars. At the end of 1994, NOVA had forward contracts in place to sell a total of U.S. $450 million (1993 – U.S. $270 million). These contracts mature throughout 1995 and 1996 and have an average exchange rate of $1.37 per U.S. dollar.

The table below summarizes the contractual amounts of NOVA's forward exchange contracts translated into Canadian dollars at the year-end rate.

December 31 (millions of dollars)	1994	1993
Notional amount	$ 630	$ 357

(c) Commodity hedging

NOVA uses New York Mercantile Exchange natural gas and crude oil futures and options to hedge some of its feedstock purchases. The instruments are used to moderate the risk of fluctuations in feedstock prices and are not used for speculative purposes. At December 31, 1994 and 1993 the fair value of the outstanding contracts was less than $1 million.

20. UNITED STATES ACCOUNTING PRINCIPLES

(a) Reconciliation to Accounting Principles Generally Accepted in the United States

Year ended December 31 (millions of dollars, except for share data)	1994	1993	1992
Net income using Canadian basis	$ 575	$ 191	$ 152
Add (deduct) adjustments for:			
Equity in earnings of affiliates[1]	(27)	–	–
Income taxes[2]	3	10	–
Inventory valuation adjustment[3]	(5)	1	2
Other	2	1	1
Net income using U.S. basis	$ 548	$ 203	$ 155
Net income per share using U.S. basis			
Primary and fully diluted	$ 1.16	$ 0.49	$ 0.40
Balance sheet items using U.S. basis			
Investments and other assets[2]	$ 1,602	$ 850	$ 343
Other deferred credits[2]	$ 673	$ 580	$ 188
Reinvested earnings	$ 574	$ 139	$ 44

(1) United States accounting principles require an affiliate of NOVA to account for a business combination it entered into by using the purchase method, whereas Canadian accounting principles require the affiliate to use the pooling of interests method. In addition, the equity in earnings of affiliates has been adjusted to recognize deferred income taxes based on the liability method.

(2) United States accounting principles require companies to recognize deferred income taxes based on the liability method, whereas Canadian accounting principles require that the deferral method be used. Under the U.S. basis companies are also required to record deferred income tax liabilities and long-term receivables for deferred income taxes to be collected from cost-of-service customers in future years. These amounts are not recorded under the Canadian basis. For U.S. basis accounting purposes this accounting treatment was adopted on a prospective basis effective January 1, 1993. The impact on net income for 1993 was the result of the cumulative effect to December 31, 1993.

(3) United States accounting principles require an allocation of fixed production overhead to inventory. Canadian accounting principles allow these costs to be expensed during the period.

(b) Projected pension benefit obligations (PPBOs)

United States accounting principles require the discount rate assumption for the valuation of PPBOs to be calculated based on the year-end rate for high-quality Canadian fixed income investments. Under this basis, the 1994 discount rate would have been 10% and would have resulted in a $100 million excess of pension assets over PPBOs on an accounting basis as at December 31, 1994. This compares with the Canadian basis of accounting which uses management's best estimate of the long-term fixed income investment rate, which was estimated to be 8% for 1994. Using an 8% discount rate results in a $57 million deficiency on an accounting basis as at December 31, 1994.

(c) Statement of cash flows presentation

Under U.S. reporting rules, the exchange of assets for Methanex common shares and the conversion of convertible debentures would not be included in the statement of cash flows.

(d) Fair values of financial instruments(1)

(millions of dollars)	Carrying amount(2) 1994	1993	Fair value(2) 1994	1993
Long-term debt(3)				
Cost-of-service	$ (3,149)	$ (2,753)	$ (3,236)	$ (3,022)
Non-cost-of-service	$ (494)	$ (560)	$ (494)	$ (588)
Interest rate swap agreements(4)				
Cost-of-service	$ –	$ –	$ (5)	$ (30)
Foreign exchange forward contracts				
Non-cost-of-service	$ –	$ –	$ (21)	$ –

(1) The carrying amounts reported in the balance sheet for cash, accounts receivable and payable, and short-term bank loans approximate their fair value. NOVA does not have a significant exposure to any individual customer or counterparty.

(2) Asset (liability)

(3) The fair value of long-term debt is based on quoted market prices, where available. If market prices are not available, fair values are estimated using discounted cash flow analyses, based on NOVA's current incremental borrowing rates for similar borrowing arrangements.

(4) The fair values of these instruments are estimated based on quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences.

supplemental information

SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Three months ended (millions of dollars, except for share data)		March 31 1994	1993	June 30 1994	1993	September 30 1994	1993	December 31 1994	1993
Revenue	$	826	791	863	809	943	828	1,092	846
Operating income	$	124	127	145	113	190	125	265	119
Net income	$	166	43	67	66	134	42	208	40
Net income excluding gain on sale of investments	$	46	43	67	41	134	42	208	40
Average number of shares outstanding (millions)		444	407	463	407	472	407	478	407
Data per share									
Net income(1)	$	0.36	0.11	0.13	0.16	0.28	0.10	0.43	0.10
Net income excluding gain on sale of investments(1)	$	0.11	0.11	0.13	0.10	0.28	0.10	0.43	0.10
Market price									
Toronto Stock Exchange									
High	$	10-7/8	9-3/8	12	10-1/8	15	9-7/8	14-7/8	9-1/2
Low	$	9-1/8	8-3/8	9-1/2	8-5/8	10-5/8	8-3/8	12	8-3/8
New York Stock Exchange									
High ($U.S.)	$	7-7/8	7-1/2	8-3/4	7-7/8	11-1/4	7-5/8	11	7-1/4
Low ($U.S.)	$	6-3/4	6-5/8	6-7/8	6-7/8	7-5/8	6-3/8	8-3/4	6-1/4
Dividends paid	$	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06

(1) Fully diluted net income per share.

SUMMARIZED FINANCIAL INFORMATION ON PRINCIPAL SEGMENTS (UNAUDITED)

	Natural gas services			Petrochemicals		
December 31 and for the year ended (millions of dollars)	1994	1993	1992	1994	1993	1992
Balance sheet						
Current assets	$ 365	$ 343	$ 295	$ 558	$ 652	$ 469
Investments and other assets	630	216	220	572	234	104
Plant, property and equipment	4,314	3,649	3,275	1,780	1,810	1,800
Total assets	5,309	4,208	3,790	2,910	2,696	2,373
Current liabilities	368	272	208	722	699	435
Long-term debt						
Cost-of-service	2,784	2,347	2,056	239	296	297
Non-cost-of-service(1)	34	–	–	87	153	195
Other deferred credits	(25)	31	38	279	213	122
Total liabilities	3,161	2,650	2,302	1,327	1,361	1,049
Capital investment	$ 2,148	$ 1,558	$ 1,488	$ 1,583	$ 1,335	$ 1,324
Income statement						
Revenue	$ 1,073	$ 966	$ 877	$ 2,651	$ 2,308	$ 2,150
Operating expenses	(478)	(405)	(330)	(2,178)	(2,061)	(1,901)
Depreciation	(169)	(156)	(141)	(175)	(168)	(148)
Operating income	426	405	406	298	79	101
Interest expense(2)	(262)	(227)	(214)	(58)	(90)	(116)
Other income	82	28	34	272	28	8
Income taxes(2)	(66)	(42)	(59)	(100)	(3)	9
Minority interest(3)	(8)	(11)	(12)	–	–	–
Net income(4)	$ 172	$ 153	$ 155	$ 412	$ 14	$ 2
Cash flow						
Operating activities						
From operations(2)	$ 315	$ 302	$ 267	$ 369	$ 158	$ 141
Changes in non-cash working capital items	36	4	(24)	1	(74)	2
	351	306	243	370	84	143
Investing activities						
Plant, property and equipment additions	(834)	(523)	(451)	(204)	(262)	(79)
Financed by cost-of-service debt	545	339	288	–	–	–
	(289)	(184)	(163)	(204)	(262)	(79)
Other	(315)	(3)	(37)	170	(122)	18
	(604)	(187)	(200)	(34)	(384)	(61)
Cash flow before non-cost-of-service debt and equity financing activities	$ (253)	$ 119	$ 43	$ 336	$ (300)	$ 82

(1) Excludes an allocation of NOVA's corporate long-term debt of $305 million in 1994 (1993 – $335 million, 1992 – $258 million).

(2) Includes an allocation of NOVA's corporate amounts.

(3) Relates to preferred shares of NOVA Gas Transmission Ltd., a subsidiary of NOVA.

(4) Excludes corporate and other items which represented a net loss of $9 million in 1994, a net gain of $24 million in 1993 and a net loss of $5 million in 1992.

six-year review

(unaudited; millions of dollars, except share amounts, ratios and miscellaneous)		1994	1993	1992	1991	1990[1]	1989
Operating results							
Revenue	$	3,724	3,274	3,027	3,074	3,980	4,109
Operating income	$	724	484	507	363	618	741
Net income from continuing operations before restructuring charge	$	575	191	152	32	185	200
Net income (loss) from continuing operations	$	575	191	152	(643)	185	200
Net income (loss)	$	575	191	152	(937)	167	168
Total assets	$	8,257	6,923	6,189	5,802	6,681	7,590
Capitalization							
Short-term debt – non-cost-of-service	$	297	403	222	262	242	268
Long-term debt[2] – cost-of-service		3,148	2,753	2,425	2,347	2,029	1,615
– non-cost-of-service		495	560	462	815	963	1,941
Minority interest		100	176	182	189	195	204
Shareholders' equity[3]		3,341	2,275	2,172	1,512	2,368	2,359
Total capitalization	$	7,381	6,167	5,463	5,125	5,797	6,387
Cash flow data							
Plant, property and equipment additions	$	1,038	785	530	666	933	729
Cost-of-service debt additions		(545)	(339)	(288)	(358)	(449)	(237)
	$	493	446	242	308	484	492
Funds from continuing operations	$	668	450	439	209	491	573
Non-cost-of-service debt net additions (repayments)	$	(171)	279	(393)	(128)	(1,004)	(798)
Shares issued[4]	$	525	22	568	205	7	454
Dividends	$	113	98	95	120	155	142
Data per common share							
Net income (loss) from continuing operations							
– basic	$	1.24	0.47	0.39	(2.05)	0.62	0.76
– fully diluted	$	1.20	0.47	0.39	(2.05)	0.61	0.75
Net income (loss) – basic	$	1.24	0.47	0.39	(2.99)	0.56	0.64
– fully diluted	$	1.20	0.47	0.39	(2.99)	0.55	0.63
Dividends paid	$	0.24	0.24	0.24	0.45	0.52	0.50
Shareholders' equity at year-end[5]	$	6.99	5.40	5.17	4.45	7.54	7.54
Market price (TSE) – high	$	15	10-1/8	9-1/8	9-1/2	9-3/8	14
– low	$	9-1/8	8-3/8	6-7/8	6-3/8	6-5/8	8-3/8
– close	$	13	9-3/8	8-3/4	7-1/4	8-5/8	8-5/8
Ratios							
Return on average equity	%	20.5	8.6	8.3	*	7.1	8.0
Dividend payout of earnings	%	19.7	51.3	62.5	*	92.8	84.5
Dividend yield[6]	%	1.8	2.6	2.7	6.2	6.0	5.8
Price/earnings[6]		10.4	20.0	22.4	*	15.4	13.5
Long-term debt to equity		1.1:1	1.5:1	1.3:1	2.1:1	1.3:1	1.5:1
Funds flow coverage of financial charges and preferred dividends of subsidiary[7]		3.0	2.3	2.2	1.5	2.0	2.2
Miscellaneous data							
Shares outstanding – year-end (millions)		478	407	406	326	300	299
– average (millions)		464	407	388	313	299	261
Shareholders at year-end (thousands)		34	37	39	41	44	42
Employees at year-end (thousands)		6.6	6.3	6.3	6.6	9.8	13.1

*Not applicable.
(1) Sale of rubber business.
(2) Includes current portion.
(3) Includes convertible debentures and warrants.
(4) 1994 issuance is net of the conversion of the convertible debentures.
(5) Calculation includes the effect from conversion of the convertible debentures and warrants.
(6) Calculated using year-end market prices.
(7) Funds from continuing operations before financial charges divided by total financial charges and subsidiary's preferred share dividend entitlement.

corporate governance

The governance of the corporation is the responsibility of NOVA's Board of Directors and four committees of the Board, together with NOVA's Corporate Strategy and Policy Committee.

In 1994, the Toronto Stock Exchange Committee on Corporate Governance published guidelines to help corporations assess their governance systems and accountability to shareholders. Of the 14 guidelines contained in the committee's report, NOVA is in alignment with 13.

The one exception relates to a recommendation that there be clearly stated mandates for the Board and the Chief Executive Officer. While NOVA's CEO has a specific mandate, this is not the case for NOVA's Board of Directors. NOVA's full Board has plenary power, without a specific mandate. Any responsibility which is not delegated to NOVA's senior management or a committee of the Board remains with the full Board. NOVA believes this is an appropriate arrangement given the respective responsibilities of the Board committees and senior management.

In all other respects, NOVA's governance practices are in material alignment with the TSE guidelines. For a complete review of NOVA's alignment with the TSE guidelines, see Schedule A of NOVA's March 27, 1995 Management Information Circular.

THE CORPORATE STRATEGY AND POLICY COMMITTEE (CS&PC)

The CS&PC advises the Chief Executive Officer on the short- and long-term direction of NOVA. The committee's mandate includes the development of corporate strategy, the review and approval of business plans and monitoring of the environment in which NOVA conducts its business.

ADIEU AND THANK YOU

John Feick, who joined NOVA in 1977, resigned from his position as president and chief operating officer of Novacor Chemicals Ltd. in 1994 to pursue other interests. Pierre Choquette left his position as president of Novacorp International Inc. in late 1994 to lead NOVA affiliate Methanex Corporation. We thank both of these gentlemen for their many contributions to NOVA.

COMMITTEES OF THE BOARD

The committees of NOVA's Board of Directors, their mandates and membership are outlined below.

Audit & Finance
This committee covers most aspects of NOVA's financial activities including undertaking a first review of finance-related public documents. Composed of Mrs. Rennie and Messrs. Coleman, Healy, Hotchkiss (chair), MacLeod and Milavsky.

Corporate Governance
This committee recommends nominees for election and appointment to the Board. It is also responsible for ensuring the effectiveness of the Board and relations with NOVA's management. Composed of Mrs. Wexler, Sir Graham Day and Messrs. Aird, Haskayne (chair), Hotchkiss, Ritchie and Seaman.

Human Resources
This committee handles personnel issues and the benefits aspects of NOVA's pension plans. Composed of Sir Graham Day and Messrs. Boer, Haskayne (chair), Kissick, Pappas, Ritchie and Seaman.

Public Policy, Risk & Environment
This committee is responsible for health and safety, environment, risk management, corporate contributions and public policy matters. Composed of Mrs. Rennie, Mrs. Wexler, and Messrs. Aird, Boer, Coleman, Healy, Kissick, MacLeod, Milavsky (chair), Pappas and Pierce.

MEMBERS OF THE CS&PC

Dan W. Boivin
Senior Vice President; President, Novacor Chemicals Ltd.

C. Kent Jespersen
Senior Vice President; President, Novacorp International Inc.

Jeffrey M. Lipton
President

Richard C. Milner
Senior Vice President, Treasurer

Jack S. Mustoe
Senior Vice President, General Counsel

J.E. (Ted) Newall, O.C.
Vice Chairman and Chief Executive Officer

Sheila O'Brien
Senior Vice President, Human Resources

Brian F. Olson
Senior Vice President; President and Chief Executive Officer, Pan-Alberta Gas Ltd.

A. Terry Poole
Senior Vice President, Chief Financial Officer

Bruce W. Simpson
Senior Vice President; President, NOVA Gas Transmission Ltd.

board of directors

HON. JOHN B. AIRD, C.C., Q.C., a Board member since 1988, is counsel with the Toronto law firm of Aird & Berlis. He is Chancellor Emeritus of the University of Toronto and third visitor, Massey College, University of Toronto. Mr. Aird, who resides in Toronto, served as the Lieutenant Governor of the Province of Ontario between 1980 and 1985.

DR. F. PETER BOER, a Board member since 1991, has held several senior positions in chemical research and business management. He is currently executive vice president and chief technical officer of W.R. Grace & Co., a manufacturer of specialty chemicals. Dr. Boer is chairman of the Evaluation Committee for the National Medal of Technology in the U.S. and serves on several other governmental and university advisory bodies. Dr. Boer resides near Boca Raton, Florida.

RONALD B. COLEMAN, a Board member since 1987, resigned from his position as senior vice president of a major oil company in 1979 to pursue a private career as an oil and gas consultant. He is president of R.B. Coleman Consulting Co. Ltd., and is president and a director of Dominion Equity Resource Fund Inc. Mr. Coleman, who resides in Calgary, also serves on the boards of The Maritime Life Assurance Company, Canadian Conquest Exploration Inc. and Landmark Corporation.

SIR J. GRAHAM DAY, a Board member since 1990, is counsel to the Atlantic Canada law firm Stewart McKelvey Stirling Scales and Chancellor of Dalhousie University. Sir Graham serves on the boards of several companies in the United Kingdom, Europe and Canada including the Bank of Nova Scotia and Extendicare Inc.

RICHARD F. HASKAYNE joined the Board in 1991 and was appointed NOVA's chairman in 1992. Mr. Haskayne entered the oil and gas industry in 1960. He held numerous executive positions until his retirement in 1991 as chairman, president and chief executive officer of Interhome Energy Ltd., the parent company of Home Oil and Interprovincial Pipe Line. Mr. Haskayne is chairman of the Board of Governors of the University of Calgary and a director of several Canadian companies. He resides in Calgary.

J. JOSEPH HEALY, a Board member since 1977, is president of Healy Motors, of Edmonton, where he resides. He also serves on the boards of Healy Truck & Body Centre Ltd., Car Leasing (Alberta) Ltd. and Burnside Holdings Ltd.

HARLEY N. HOTCHKISS, a Board member since 1979, is president and a director of Spartan Resources Ltd. and other private companies investing in oil and gas, real estate and agriculture. Mr. Hotchkiss, who resides in Calgary, is chairman of The Calgary Flames Hockey Club Ltd. and also serves on the boards of several other companies.

W. NORMAN KISSICK, a Board member since 1992, joined Union Carbide Canada Ltd. in 1952 and held several executive positions prior to retiring as its chairman and chief executive officer in 1991. He also serves on the boards of Avenor Inc. and The Toronto Dominion Bank. He resides in Agincourt, Ontario.

J.M. (JACK) MacLEOD, a Board member since 1993, joined Shell Canada Limited in 1954 and held several executive positions until his appointment as president and chief executive officer in May 1985. He retired from Shell Canada in January 1993. Mr. MacLeod, who resides in Calgary, serves on the boards of several Canadian organizations.

HAROLD P. MILAVSKY, F.C.A., a Board member since 1988, is chairman of Quantico Capital Corp. and chairman of the board of Carena Developments Ltd. He is also a director of several Canadian companies including Amoco Canada Petroleum Company Ltd., Brascan Limited and Telus Corporation. Mr. Milavsky resides in Calgary.

J.E. (TED) NEWALL O.C.,
joined NOVA and its Board in 1991. He is vice chairman and chief executive officer of the corporation. Mr. Newall joined DuPont Canada Inc. in 1958 and held several managerial and executive positions until he retired in 1991 as chairman and chief executive officer of DuPont Canada and senior vice president, Agricultural Products, of E.I. du Pont. Mr. Newall, who resides in Calgary, is also a director of several Canadian companies.

DR. NICHOLAS PAPPAS
is president and chief operating officer of Rollins Environmental Services Inc., of Wilmington, Delaware. Prior to joining Rollins, he held several executive positions in E.I. du Pont de Nemours & Co. until his retirement as executive vice president in 1990. Dr. Pappas resides in Centerville, Delaware. He has been a Board member since 1992.

ROBERT L. PIERCE, Q.C.,
retired as senior vice president of NOVA in 1994. He is chairman and chief executive officer of Foothills Pipe Lines Ltd. and vice chairman of Novacorp International Inc. Mr. Pierce also serves on the boards of several organizations including The Bank of Nova Scotia and Interstate Natural Gas Association of America. Mr. Pierce resides in Calgary and has been a Board member since 1977.

JANICE G. RENNIE, C.A.,
a Board member since 1991, is an advisor to a number of companies in the real estate industry. She is a former senior vice president of Princeton Developments Ltd. and former president of Princeton's Prairie and Northwest Territories Region. Mrs. Rennie is a member of the Audit Committee for the Province of Alberta and resides in Edmonton.

CEDRIC E. RITCHIE O.C.,
a Board member since 1992, joined The Bank of Nova Scotia in 1945 and held several managerial and executive positions within that organization until his appointment in 1972 as chairman and chief executive officer and director. In January 1993, he retired as the bank's chief executive officer. Mr. Ritchie also serves on the boards of several Canadian and international companies. He resides in Toronto.

DARYL K. SEAMAN O.C.,
has been a member of the Board since 1973. Mr. Seaman was non-executive chairman of the Board from September 1, 1991 to April 21, 1992. He is the co-founder of Bow Valley Industries Ltd. and was its chairman until his retirement in 1991. Mr. Seaman is currently chairman of DOX Investments Inc. He also serves on the boards of several Canadian companies including Trimac Ltd. and The Calgary Flames Hockey Club Ltd. Mr. Seaman resides in Calgary.

ANNE WEXLER
was appointed to the Board in December 1994. Mrs. Wexler is chairman and chief executive officer of The Wexler Group, Washington, D.C., consultants specializing in government relations and public affairs. She served as a senior advisor on the Clinton-Gore Transition Team, was assistant to President Carter for public liaison and prior to that appointment, was Deputy Under Secretary of Commerce. Mrs. Wexler resides in Washington, D.C.

WELCOME

In December 1994, we welcomed a new member to NOVA's Board: Anne Wexler, chairman and chief executive officer of The Wexler Group, Washington, D.C.

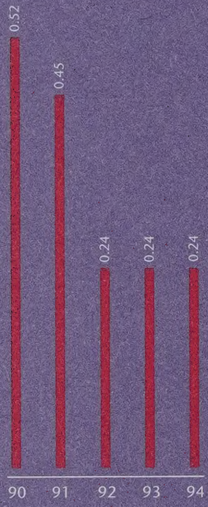
THANK YOU

William M. Comrie resigned from NOVA's Board in 1994. The Hon. John B. Aird and Daryl K. Seaman are ineligible for re-election to NOVA's Board in 1995 under NOVA's Directors' retirement policy.

We would like to thank these individuals for their invaluable contributions and years of service to NOVA.

shareholder information

DIVIDENDS PAID
PER SHARE
($)



NOVA will increase the quarterly dividend to 8 cents from 6 cents beginning with the May 15, 1995 payment.

Scheduled Dividend Payment Dates:

February 15;
May 15;
August 15;
November 15

Scheduled Financial Reporting Dates:

May 2, August 1 and October 30, 1995; January 30, 1996

1994 Trading Volumes:

TSE: 303,994,514
NYSE:32,250,300

Share Registration

As one of the most actively traded stocks on the Toronto Stock Exchange, NOVA shares are very liquid. NOVA's shares are listed on the Toronto, Montreal, Alberta and New York stock exchanges using the trading symbol 'NVA'. On December 31, 1994, about 478 million shares were outstanding and there were some 34,000 registered shareholders.

NOVA shares are transferable at the Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax offices of the R-M Trust Company, and at the office of Mellon Securities Trust Company, New York, N.Y.

Dividend Reinvestment and Share Purchase Plan

NOVA offers a dividend reinvestment and share purchase plan to shareholders in Canada and the United States. This plan provides a convenient means to reinvest dividends in NOVA shares. For further information on the plan, contact NOVA's transfer agent:

The R-M Trust Company
600 The Dome Tower
333 Seventh Avenue S.W.
Calgary, Alberta
T2P 2Z1
(403) 232-2400

Capital Gains Information

Revenue Canada announced the elimination of the $100,000 lifetime capital gains exemption on February 22, 1994. The following may be useful to shareholders who elect to realize capital gains earned on NOVA shares.

The Valuation Day Price (December 22, 1971) of Old NOVA common shares is $49.75 per share. Old NOVA had rights offerings in November 1974 ($9.00 per share) and September 1989 ($8.75 per share). The closing price of Old NOVA common shares on the Toronto Stock Exchange on February 22, 1994 was $9.50 per share.

Non-resident Investors

Dividends paid to shareholders are subject to Canadian non-resident withholding tax, generally at the rate of 15% for the United States and other countries where Canadian tax treaties apply, and 25% for non-treaty countries. Certain exemptions or refunds may be available to residents of the United States. Consult your tax advisor.

Electronic Bulletin Board

Recent NOVA news releases are accessible from our electronic bulletin board. To access this information, you need a computer with a modem and communications software. You may access our system through two telephone lines:
(403) 294-1096 or
(403) 294-1097.

Here are the system settings:

→ 300 to 9600 baud rate
→ data setting: 8 data bits
→ 1 stop bit
→ no parity

Public Information

Paul A. Clark
Public Affairs
(403) 290-7603

Investor Information

Bill Rowe
Investor Relations
(403) 290-7807

Correspondence

NOVA Corporation
801 Seventh Avenue S.W.
Post Office Box 2535
Postal Station M
Calgary, Alberta, Canada
T2P 2N6

FOR FURTHER INFORMATION, SHAREHOLDERS ARE INVITED TO CALL 1-800-661-8686.

balanced scorecard

To maintain its reputation as a model corporate citizen, NOVA must balance the needs of four key constituencies: shareholders, customers, employees and society. This scorecard reports selected achievements with each of these stakeholders in 1994.

SHAREHOLDERS

→ In 1994, NOVA delivered a total return of 42% to shareholders, which ranked in the top quartile of the TSE 300 and No. 1 among the TSE 35.

→ NOVA's employees and senior management team are well-aligned with investors' interests. More than 70% of NOVA's employees own stock in the company. NOVA encourages each member of its senior management team to maintain a significant personal ownership position in NOVA.

→ At NOVA's 1994 annual meeting, shareholders approved a Shareholders' Rights Plan. This plan provides adequate time for shareholders to assess any takeover bids for NOVA and ensures all shareholders are treated equally in the case of a takeover bid.

CUSTOMERS

→ NOVA Gas Transmission Ltd. (NGTL) introduced "early firm service", a dramatic streamlining of its design and construction practices enabling much faster access to transportation services.

→ The 1994 Mastio & Company customer satisfaction survey rated NGTL as the No. 1 major North American gas pipeline. A companion survey ranked Novacor Chemicals as the No. 2 rated producer of linear low-density polyethylene.

→ Together with three other major gas pipeline companies, NOVA launched NrG Highway, an electronic natural gas transportation network serving customers in Canada and the U.S.

→ Novacor is focusing on those needs most critical to its customers. In styrenics, for example, customers are receiving customized market updates, helping them stay competitive and fostering a shared understanding of the marketplace.

EMPLOYEES

→ We substantially increased our investment in employee training and development.

→ On June 30, 1994 we welcomed 284 new employees to the NOVA family with the acquisition of DuPont Canada's polyethylene business.

→ In 1994, we completed our second company-wide survey of employees. Employee feedback has led management to enhance NOVA's performance management programs, enrich its career development system, and introduce a new approach to employee recognition.

→ Thanks to record earnings, eligible employees earned a profit sharing payout of 6% of salary.

SOCIETY

→ In 1994, NOVA donated more than $2 million to charities and community groups across North America.

→ NOVA is proud of its 20-year history of supporting and working with North America's Native peoples. In the summer of 1994, NOVA carried out a public archeological dig of a 4,000-year-old Native encampment, attracting 3,600 visitors. At a special ceremony, the site was named and blessed by elders from the Siksika nation.

→ In 1994, we established a plastics recycling program in Leominster, Massachusetts; we published emissions data for all our petrochemicals facilities; and we produced a position paper on global climate change as a contribution to the dialogue on global warming.

The papers used in this report contain a minimum of 50% recycled paper content including at least 10% post-consumer waste.

NOVA®

NOVA

NOVA CORPORATION
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In 1994 NOVA delivered a 42% total return to its shareholders, No. 1 among the TSE 35*

* AN INDEX OF 35 OF CANADA's LARGEST PUBLICLY TRADED COMPANIES.

RAPPORTS ANNUELS EN FRANÇAIS

On peut obtenir un exemplaire de ce rapport en français auprès du secrétaire de la Société.

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